Thomas Gibson's Weekly Market Letters 1908

VOL. I

Thomas Gibson's Weekly Market Letters

1908

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VOLUME I

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FOREWORD.

Fortunately it is not necessary to offer any explanations or excuses for errors of judgment in advices offered during the year 1908. The advice offered has been uniformly bullish, except in a few instances where temporary profit-taking was recommended because of a weakened technical situation. The points at which recommendations to take profits and the points at which purchases were again advised are shown in the following chart.

It is most gratifying to note that the change from a bearish to a bullish position in 1907, although a little premature, was justified by the events of 1908.

In my opinion the year 1909 will offer greater opportunities for profits than any year since 1906. Not that the market will advance more in points than in 1904, but that several very severe reversals will occur, which, if correctly foreseen, will give a greater gross range of prices than would occur in a perpendicular advance. It is quite certain, however, that more difficulty will be encountered in reading major movements in 1909 than was the case in 1908. In 1908 prices were so low that only the stubborn, the unreasonably pessimistic or the ignorant, could look for anything but an advance. This is not true of the present range of prices, and if we are to succeed it will be necessary to exercise unusual vigilance and great discrimination as to selection of securities.

T. G.

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WEEKLY MARKET LETTERS

OF

THOMAS GIBSON

BEGINNING JANUARY 4, 1908

SUITE 531-2-3-4
CORN EXCHANGE BANK BLDG.
NEW YORK CITY

WEEKLY LETTER.

January 4, 1908.

It is most natural that in attempting to judge of the probable future of the stock market, we should revert to the events of the past. In following this process of reasoning, there is one prevalent error which invariably results in incorrect deductions and confusion of ideas. During the last three months numerous writers have made comparisons between 1907 and every panic year since 1837, but no one has seen fit to draw an analogy with 1903. There are several reasons for this ignoring of the affairs of 1903. A considerable business depression, accompanied by a very severe decline in stock prices, occurred in that year, but these events have been dwarfed into insignificance in the light of more recent occurrences. When the recession of 1903 was fresh in the memory it was called panic, and so far as the ten-year cycle theory is concerned, it was the logical time and place for a panic. Near the end of the year 1903, the ice was very thin in spots and matters looked grave; but we skated over, and from January, 1904, to December, 1904, railroad stocks showed an advance of 27% and industrials an advance of 50%. The comparatively large advance in industrials may be explained by the fact that at the beginning of the period named, rails had already recovered over 10% from the low prices established in August, 1903, while industrial stocks had made no improvement from August to January. This is an evidence of the operation of the theory frequently set forth in these advices, that railroad stocks would precede the industrials in advances at the inception of a recovery, principally because timid investment capital would turn first to the more seasoned securities.

It was also the case in 1903 that industrial shares were unduly depressed in anticipation of a great falling off in general business in 1904. This falling off did not materialize, but the

indications of such commercial demoralization were as plainly written and as much discussed as are the prospects in that line for 1908.

It is my opinion that we can more safely make a comparison of 1907 with 1903 and a tentative analogy between 1904 and 1908, than by harking back to earlier periods. I realize that this is an unusual view but I will support it as best I may, in the space at my disposal.

In the first place, we cannot, by any form of simple logic, make intelligent comparisons when vital elements are eliminated or reversed in the two equations. Prior to the depression of 1903 every panic period had as one of its chief components the question of the stability of our standard of value. This element is entirely obliterated now—we are firmly established on a gold basis. Fright and apprehension on this point do not exist at present. Many other minor factors, such as crop failures, foreign trade, etc., must also be considered in our parallels. In short, if we are to expect history to repeat itself, the causes which produced the historical effect must be equal.

In the December 31, 1907, edition of "The New York Evening Post," the decline of stock prices in 1903 is attributed to the following causes:

(1) Forced liquidation by individuals and syndicates who were tied up in new securities at a time when the investing public withdrew from the market; (2) inability of great corporations to sell bonds, and resort to notes at a high interest rate; (3) abundant grain crops, but an inadequate cotton crop, with great speculation, and famine prices; (4) rapid fall in the price of steel and iron; (5) severe contraction in profits of industrial combinations, with reduced dividends in some, reorganization of capital in others, and bankruptcy in still others.

In items 1, 2, 4 and 5 the parallels are sufficiently exact to render comment unnecessary. In item 3, the expression, "Abundant grain crops and an inadequate cotton crop" is a little misleading. The crops of 1903 were smaller all around than those of 1902 and, considered as a whole, make a fair comparison with the shrinkage of 1907. Thus:

	Wheat.	Corn.	Oats.	Cotton.
1902 . .	670,063,008	2,523,648,312	987,842,712	10,758,326
1903 . .	637,821,835	2,224,176,925	784,094,199	10,123,686
1906 . .	735,260,970	2,927,416,091	964,904,522	13,550,760
1907 . .	634,087,000	2,592,320,000	754,443,000	12,000,000

Both 1902 and 1906 were big crop years, particularly 1906, and we may safely say that both 1903 and 1907 were good crop years, if not "abundant."

In 1903, we did not reap the same benefit from high prices for cereals as has been the case in 1907. The figures are as follows:

Average Prices of Cereals.

	1902	1903	1906	1907
Wheat	63.0	69.5	66.7	87.4
Corn	40.3	42.5	39.9	51.7
Oats	30.7	34.1	31.7	44.3

The average price of cotton in the season of 1902-3 was 10.26 and in 1903-4, 12.58. In 1906-7 the average price was 11.48 and so far in 1907-8, about 11.75.

The figures given in cereals are the average prices received by farmers. The prices in cotton are those established on the New York Cotton Exchange. The high average of 1903-4 is a bit fictitious, as it includes the Sully boom, in which cotton sold at 17.25, but very little of the staple was marketed at such figures. No such movement has happened in 1907.

In 1904, we received very high prices for our wheat, and cotton averaged 9.13.

The cereal crops and average prices for the year 1904 were as follows:

	Wheat	Corn	Oats
Bushels	552,399,517	2,467,480,934	894,595,552
Average price......	92.4	44.1	31.3

Of cotton, we made 13,436,000 bales at an average price of 9.13. How far we are to be assisted by crops and prices in 1908 is a great unknown factor. It will not be long until we begin to get some light on this subject and it will be a most important thing to watch. When the time arrives I will employ reliable correspondents in the West and South and we will try to get at the status of affairs with some degree of accuracy.

In 1903, as in 1907, the trust problem was being agitated and the Northern Securities litigation was a disturbing factor. It should not be forgotten that the Administration was active in that year. In February, President Roosevelt intimated that if Congress did not get after the trusts he would call a new Congress in extra session after March 4. Three new measures against the trusts became laws—the creation of the Department of Commerce and Labor; Senator Elkins' rebate bill and the bill drawn by Attorney-General Knox to expedite court hearings in violations of the Sherman anti-trust act and the interstate commerce law. There were labor troubles and more or less money stringency throughout the year. In October and November, dividends were reduced or dropped entirely on many industrials. The United States Steel Corporation frightened a great number of small investors by cutting their dividend from 4% to 2% per annum in October. In the same month a number of banks suspended; large amounts of money were drawn from New York; the depression in the steel and iron industries was acute; the sensational United States Shipbuilding investigation occurred. All the Amalgamated Copper Company's mines were closed on October 22, and several railroads, notably the

Pennsylvania, discontinued construction work already planned. In November, wholesale wage reductions occurred, steel prices and productions fell off, and the Great Northern, the Baltimore & Ohio and the Lake Shore were hustling for money. As usual, J. P. Morgan came to the front and took $40,000,000 out of an issue of $50,000,000 4% debentures of the road last named. In December the Lake Shore increased its semi-annual dividend from 3½% to 4%; Republic Steel passed its dividend, as did the Crucible Steel Company.

Dozens of other points of similarity between 1903 and 1907 could be shown, but enough has been said to show that a pretty distinct parallel existed. The pessimistic feeling and apprehension at the close of 1903 corresponded exactly with the sentiment of to-day.

As to the experimental analogy between 1904 and 1908, it may be pointed out that it was a Presidential year. This club is being held over the market now, as it was in 1904. In 1903 our excess of exports of merchandise was $394,000,000. In 1907, this item will be more favorable by at least $100,000,000. In 1904 the credit balance on foreign trade was $469,000,000. What it will be in 1908 is, like the crops, problematical.

We are not facing an international war in 1908 as was the case in 1904.

In 1904, the undigested securities of 1902 and 1903 which looked so formidable, were absorbed like a sponge taking up water. The first indication of this was a revival of the demand for bonds and so far as 1908 is concerned, we need look no further than the figures of the last month to see that this same demand and absorption has already started.

The beginning of the marked upward movement in 1904 was at the time of the Northern Securities decision in March, as the litigation uncovered a state of affairs entirely different from what was expected. It is my opinion that this will be true of the Union-Southern Pacific litigation and also of the coal land holdings of the coal roads.

In the brief comparison drawn above I do not mean to say that there have been no points of divergence in the two periods consulted, but I find a truer parallelism in these two years than by comparing 1907 with any preceding crisis. It must also be admitted that the troubles of 1907 have been more severe than were those of 1903, but we have paid for this by a greater decline in security prices. In my opinion, 1907 was, so to speak, a broken off portion of 1903. Many of our wild-cat financiers escaped by the skin of their teeth in the former period; this time they got nailed. A good many observers are inclined to throw up their hands in holy horror at the rottenness uncovered by the recent digging, but, everything considered, it is not so surprising to note how much there was of sponginess as how much there was of solidity in the foundation.

There is one more point and a most important one; we recovered rapidly from the depression of 1903 because of the great increase in the world's production of gold. This was the most potent single factor in the whole affair. This same force is at work to-day. We are now adding a million dollars a day to the world's currency, which means a possible credit expansion of four millions a day.

There may be a tendency to draw too close a comparison with 1904 and argue that as the advance of that year did not begin until March, the same should be true of 1908. This is dangerous reasoning. There is no use drawing mechanical lines to govern broad events. The decline of 1907 was much more extensive than that of 1903 and, therefore, the element of discount has been greater. It is sufficient to know that many securities are very cheap and that the dangers of the future consist more of bugbears and an overworked dollar than that of any basic or industrial decadence.

The General Situation.

The general situation improves steadily. This is particularly true of money matters. The currency premium is a thing of the past, the Bank of England has reduced its rate of discount, clearing house certificates will disappear shortly, and one of two things may be expected—a resumption of business which will absorb surplus funds or an over-supply of money. It is my personal opinion that a restoration of confidence and the full employment of money is more to be expected than stagnation and a redundancy of loanable cash which would drive gold out of the country. As to the desirability of such an early rehabilitation, I do not pretend to speak. It is my business to examine the probable security movements of 1908 rather than to discuss the economic results in 1910.

There is a good deal of undue concern about the falling off in net earnings of railroads at present. It was the intention to discuss the matter in this letter, but it will be necessary to defer the topic until January 11, at which time several interesting tables will be produced.

The status of the railroads which own coal properties and are subject to the law which becomes effective May 1, will be fully covered in a special letter next week. I am in correspondence with authorities in Washington at present, but it is difficult to obtain much light on the subject. Pending the special letter mentioned, I will reproduce an extract from a letter received yesterday from the Congressional Information Bureau.

"In the opinion of those here best informed, no serious obstacle is presented to compliance with the law; nor is it believed that any property rights or interests will be seriously affected

by its operation. As above suggested, it is thought that the coal railroads will be able to form companies under the law which will prevent the difficulties that you seem to think may arise.

"Under the circumstances, you readily observe how difficult it is to get anyone whose opinion is valuable to pass upon the matter. The government officials prefer not to discuss it even privately—they particularly object to being quoted in connection with it or to having any assumptions made concerning their opinions. They always object—and properly in most cases—to hypothetical questions."

The Technical Situation.

There is little change in the technical situation aside from the day to day shifting of professional traders. There is a large outstanding short interest which can be forced out only by a considerable advance. On the other hand, the outstanding long interest cannot be forced out at all as the bulk of purchases are for cash. The day to day shifting first mentioned will bring about the usual fluctuations, but the broad technical situation is very strong. There is a particularly large short interest in Pennsylvania and it is only a question of time until they will be punished. The ranks of the bulls are also being augmented by men who were badly crippled through over-extending themselves during the unusual events of recent months, but who are still convinced that they are right and are converting everything possible into cash for the purpose of bravely backing up their convictions. There is an old adage in the Street that "cripples can't dance," but it is a fact that about a month ago a man with two wooden legs took the first prize for fancy dancing at an exhibition in New York.

Conclusion.

I cannot see any reason why we should not continue to buy good stocks at this level or on any little breaks. I am inclined to think, however, that later on there will be an access of bullish enthusiasm about the time the January disbursements begin to come into the market and that this change of sentiment will bring about considerable realization and a sharp break of from three to five points. This view is, of course, founded entirely upon the technical situation and I cannot pretend to offer even the approximate date of its appearance as yet.

Continue to recommend purchases of Reading, Pennsylvania, Atchison, Union and Southern Pacific, Great Northern, Northern Pacific preferred and Chesapeake & Ohio. In the industrials I like the United States Steel stocks and Distillers.

WEEKLY LETTER.

January 11, 1908.

The question of railroad earnings is so much discussed at present, that the following table should prove interesting.

Table Showing Percentage of Increase and Decrease in Railroad Earnings for Sixteen Years.
(Comparisons with corresponding month of each preceding year.)

Year.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
1892	2.57	13.43	8.54	3.68	2.16	7.43	2.34	7.27	2.90	1.85	2.71	2.38
1893	*0.93	*5.04	1.05	*3.48	13.51	*1.13	*14.35	*7.09	*7.95	*4.29	*1.96	*16.84
1894	*12.25	*12.54	*13.05	*14.86	*17.55	*21.48	*20.49	0.79	*6.22	*5.59	*1.58	*0.62
1895	*0.07	*2.11	0.63	4.65	6.38	8.29	15.97	1.63	5.47	6.59	6.42	9.15
1896	10.99	13.52	4.42	3.41	2.28	6.80	4.02	*2.61	*0.42	*4.38	*9.97	*1.41
1897	*6.78	*0.89	*1.60	1.44	5.14	2.17	5.16	12.40	14.14	8.97	20.79	12.37
1898	16.56	13.79	15.25	15.47	14.08	6.38	1.78	4.93	6.04	4.91	4.58	7.10
1899	7.10	*1.02	6.35	4.23	6.96	14.06	17.15	13.48	11.08	10.91	10.48	7.45
1900	15.14	19.86	12.50	12.69	10.67	9.23	5.86	6.14	2.21	5.03	2.14	9.05
1901	7.94	7.50	7.43	8.94	9.41	6.80	13.40	12.67	10.46	11.87	12.22	5.05
1902	7.61	3.92	6.30	11.03	9.18	7.16	7.65	4.76	9.55	6.71	6.97	9.86
1903	9.40	13.86	14.42	13.67	11.98	14.02	11.96	9.18	6.98	5.34	4.03	4.66
1904	*4.55	2.60	*0.06	*3.18	*2.77	*0.81	*5.35	0.51	2.81	3.20	9.51	7.92
1905	6.58	*3.01	9.73	7.35	11.09	9.66	10.02	9.23	9.28	8.54	10.35	9.54
1906	20.88	26.36	10.61	6.78	9.83	12.11	13.73	12.11	7.58	10.77	6.24	7.90
1907	2.23	6.05	9.65	21.45	18.12	13.59	14.28	12.27	9.71	8.56	2.52	(X)
Total Inc. .	107.00	145.50	106.88	114.79	130.79	117.70	123.32	107.37	98.21	93.25	98.96	92.43
Total Dec .	24.58	24.61	14.71	21.52	20.32	23.42	40.19	9.70	14.59	14.26	13.51	18.87
Av Net Inc	5.15	7.55	5.76	5.82	6.90	5.89	5.19	6.10	5.22	4.93	5.34	4.90

* Decrease compared with earnings of corresponding month of previous year. Figures are compiled from Financial Chronicle reports.

(X) Figures for December, 1907, are not available.

Summary Showing Years Having Decreased Earnings.

	¶1893	1894	1895	1896	1897	1899	1904	1905
No. of months.........	10	11	2	5	3	1	6	1
Aggregate per cent....	63.06	126.23	2.18	18.79	9.27	1.02	16.72	3.01

This table is apt to be a little confusing at first glance. It will be understood that where a considerable increase is shown in the total of a series of single months, it does not follow that this is a big traffic month. Take February for example. The comparison is with other Februarys only and what is shown is the improvement of that month. The complete tabulation shows the gradual growth of our railroad business during the period consulted.

There are a number of interesting points in this table, but what is established more distinctly than anything else is the question of the anteriority of stock prices. This is peculiarly pertinent at present, for a great many people are shaking their heads about the decreased earnings recently exhibited. They deduce further declines in stock prices because of this drop in earnings, but this is absolutely reversed reasoning. It is just the other way around. Stock prices have been declining for a year in anticipation of a probable falling off in earnings. I know I harp on this point continually, but with good reason. It is the most difficult thing imaginable to drive the fact home that the word "speculation" refers to the unknown future and not to the visible and demonstrable present. When this single factor is fully appreciated we will have gained something which is more important than all the other elements of the problem combined.

It will be observed that in the year 1893, a long string of declines began in June and continued throughout the year 1894. The falling off in 1894 is more serious than in 1893, as in 1893 we were drawing comparisons from a long line of increases, while in 1894 comparisons were extensions of other decreases.

The point is, that in July, 1893, the stock market reached its lowest prices and did not suffer further because of the decline in earnings of 1894. The recovery was limited, but it was a recovery nevertheless, under most adverse circumstances.

In 1903, railroad stocks reached their low level in September and a great advance occurred in 1904 in spite of the fact that the first six months of the year showed a falling off in earnings. The true comparison at present is with 1903-4 rather than with 1893-4. In fact, there is no justifiable analogy between 1893-4 and 1907-8. This, however, does not affect the point under discussion, which is the previousness of stock price movements.

I do not mean to say that no other factors except that of

¶ World's Fair held at Chicago during this year greatly increased income from passenger traffic over normal.

railroad earnings enter into the matter, but it is a vital and important element. What is desired is to fortify my contention that, regardless of a possible further decline in earnings, stock prices may advance.

In regard to the disproportionate decreases recently shown in net as compared with gross earnings, it may be pointed out that at the inception of all movements of this character net declines more in proportion than does gross. This is later on rectified by the readjustment of prices of labor and material. Thus in the decreases of 1894, the first months of the year showed a greater falling off in net than in gross, but the year, taken as a whole, showed exactly 11.7% decline in both items. In 1897, the gross earnings of railroads increased only 0.64%, while net increased 3.04%. This improvement was due to the readjustment of commodity and labor prices in 1896. This factor will enter the affairs of the present before long.

We are hearing a good deal at present about the rapidity of our recent recovery. There is nothing to support the careless idea that any considerable recovery has occurred. Two or three stocks have advanced materially, but the average improvement has been very slow. Since November 1 the average advance in rails has been less than five points and industrials have been on practically a dead level. This may be best illustrated by a chart.*

It is a well-known fact that the extreme top or bottom of a movement is marked by a more or less prolonged period of backing and filling, with a gradual downward tendency in a high market which is undergoing liquidation, and a gradual upward tendency when accumulation is going on. The movement pictured above represents accumulation and, considering the extent of the preceding decline, the recovery so far has been insignificant.

Another point illustrated here, which has been persistently predicted and referred to in these advices, is the drawing apart of railroads and industrials. This is founded on the fact that industrials occupy a less favorable position than rails in periods of depression, and vice versa. Commodity prices rise more rapidly than operating expenses in good times and the margin of profit for producing companies is greater. But commodity prices also fall more rapidly than operating expenses in bad times. The transportation rates of railroads are more stable.

While the chart shows a remarkable uniformity in intermediate movements of the two groups of stocks, they have gradually drawn apart. This divergence may be demonstrated by a very simple method. Lay your ruler on the chart at the beginning of the lines and again at the end. It will be found that on November first the lines were 1⅞ inches apart and on December 31 2⅜ inches apart. We can all have a little laugh

* This chart appears on page 7 of the Book of Charts issued in connection with this volume.

at this novel method of measuring the stock market in inches, but it shows the separation very clearly.

We may also note that, in the face of a flood of bad news since November 1, the bear has had all the worst of it, even more than is shown by the chart, for there have been a good many dividends to pay. The man who bought on declines has been following correct methods.

The General Situation.

So much of our recent decline in stock prices was due to money conditions that it is very gratifying to note a marked improvement in this regard. Time money for all periods is now obtainable at 6%, and I know of one case where $500,000 was offered yesterday on stock collateral at 5½%. This reflects not only the easing of money, but the confidence of bankers in the stability of stock prices. Some dissatisfaction has been expressed because the Bank of England did not again reduce its rate of discount. There is nothing remarkable about this, although the bearishly inclined pretend to see something sinister in the hesitation. The rate will probably be reduced next week. We heard the same line of talk about the Bank of France a week ago, but the reduction of their rate appeared in due time.

It was my intention to issue this week a special letter in regard to the status of the coal roads under the new law effective May 1, 1908, but this document is unavoidably delayed because of the meagreness of dependable opinions or information on the subject. The letter will be issued as soon as something worth while is obtainable. Meanwhile we have a pretty good evidence of the attitude of insiders toward coal stocks in the market movements of the last week or two. It might be contended that a certain active coal road stock could be manipulated upward in order to dispose of the shares, but when we observe good buying in such investment stocks as Lackawanna, Delaware & Hudson, etc., the character of the movement appears genuine.

It is quite important just now that we examine closely the signs which will point out the rapidity or tardiness of a resumption of general business. I have already offered it as my opinion that the rehabilitation will be rapid. This view is founded on the theory that a large percentage of the recent business stoppage was occasioned, not by industrial causes, but by the impossibility of obtaining funds. If that was the cause, and the cause is removed, these temporarily checked enterprises will resume shortly. In order to get a concrete idea as to what is going on, I have ordered a prominent clipping bureau to furnish me with every record of the shutting down or reopening of mills, factories, etc., number of men thrown out of

work or re-employed, and all other facts or statistics bearing on the situation. This method should permit of an approximately correct record being kept and the results will be set forth in these advices without any of the journalistic coloring matter which ordinarily renders such reports unreliable.

The Technical Situation.

There is little change in the technical situation. This may appear rather remarkable in view of the advance in prices, but here is the way the matter stands:

1. There is a stubborn outstanding short interest which is not affected by movements of a few points. This interest shows little inclination to cover as yet. 2. There is not much of a long interest of a weak character. A good many people have taken profits and are waiting for a reaction, while still others are waiting for this same reaction on which to make initial commitments. 3. A considerable number of professional traders are selling short on these upturns on the theory that a reaction is due. 4. The buying of late has been very good. Purchasers of this kind do not buy for a "turn," and their accumulations are not yet offered in any volume.

All this leaves the technical situation very strong.

Conclusion.

I cannot find any good reasons, either general or technical, for changing my recommendation to buy good stocks at this level. Of course, there is the factor of ordinary fluctuations, and we all know that after an advance we always suffer reactions, whether there is a reason for such reversals or not. It is entirely out of the question to judge the exact time and extent of such intermediate set-backs. If we find that the technical situation has changed materially we may pick out these spots with more or less accuracy, but the man who attempts to gauge declines for no better reason than a preceding advance, enters at once the ranks of guessers. The small but inevitable ups and downs of daily sessions can be as correctly judged (or guessed) by my clients as by me or, for that matter, by any other man.

It may be said, however, that the process of rotation in stocks can be safely applied at present. Stocks which show a considerable advance may be sold and replaced by dormant stocks. Care should be taken to pick out such stocks as have suffered rather from neglect than from specific causes.

Advise purchases of Pennsylvania, Atchison, Chesapeake & Ohio, Norfolk & Western, Union & Southern Pacific, the Hill stocks, Louisville & Nashville, United States Steel stocks and Distillers.

January 18, 1908.

An examination of several hundred newspaper clippings recently published in trade journals and municipal dailies, shows a cheerful tone predominating in most lines of trade. It goes without saying that much of the matter examined was discarded because of its apparent inspiration or the ignorance of the writers. The situation in the dry-goods trade is very encouraging, as stocks are depleted and demand is increasing. There is a wide diversity of opinion in regard to prospects in steel and iron, but the dependable figures given show a considerable resumption of operations. It is worthy of note that trades which purvey luxuries are suffering more than any other line of business. Thus, more bankruptcies have occurred in the fur trade this fall than during any other corresponding period on record. Our gem imports fell in December, 1907, to $207,479, against $4,030,324 in December, 1906, a decrease of $3,822,845. About 75% of our gem imports are diamonds. This falling off in luxuries is not a discouraging feature but, on the other hand, it reflects important and necessary economy. If our exports were also falling off we might well be alarmed, but exports for the month of December, 1907, broke all records for a single month. We are earning more and spending less.

When a sufficient number of these clippings are obtained the results will be presented more specifically.

It is easier to measure the progress of general business by consulting bank clearings than in any other manner. In the following table I have compiled from the figures given from time to time by the Financial Chronicle, the clearings for a series of years.

Volume of Bank Clearings for the Entire United States for Twenty-three Years.

Year	Total Clearings (000 omitted)	Increase or Decrease %
1906	$159,808,640	+11.0
1905	143,909,448	+27.7
1904	112,449,664	+ 3.0
1903	109,209,187	— 7.4
1902	118,023,298	— 0.4
1901	118,410,015	+37.6
1900	86,070,549	— 8.5
1899	94,047,400	+36.6
1898	68,826,557	+20.2
1897	57,229,070	+11.7
1896	51,246,323	— 3.7
1895	53,180,700	+16.6

+ Increase. — Decrease.

Year	Total Clearings (000 omitted)	Increase or Decrease %
1894	45,460,058	—15.9
1893	54,143,527	—12.5
1892	61,919,126	+ 9.5
1891	56,657,179	— 6.4
1890	60,546,563	+ 7.9
1889	56,110,250	+13.4
1888	49,484,584	— 3.1
1887	51,091,236	+ 3.8
1886	49,247,681	+18.9
1885	41,439,303	— 6.1
1884	44,165,126	—14.6
1883	51,699,823	—15.0

\+ Increase. — Decrease.

The figures by months for 1907, as compared with 1906, are also of interest. Hereafter, weekly and monthly comparisons of bank clearings will be shown in these advices.

Total Monthly Bank Clearings for Entire United States.

Month	1906 (000 omitted)	1907 (000 omitted)
January	$16,333,604	$15,020,747
February	12,477,037	11,792,953
March	13,007,090	14,625,282
April	12,902,156	12,636,807
May	13,237,374	12,382,112
June	12,249,457	11,136,390
July	11,648,370	12,348,573
August	13,143,574	11,527,931
September . . .	12,513,065	10,551,770
October	14,550,027	13,779,790
November . . .	13,656,039	9,659,316
December . . .	14,285,466	9,407,038

I have also produced a chart which is enclosed with this letter,* showing the action of the stock market in conformity with general business conditions. The chart is necessarily drawn to a very small scale and no attempt has been made to show unimportant changes. The anteriority of stock prices during critical periods is forcibly shown in the movements of 1893 and 1894. Stock prices began advancing almost a year before business reached its low ebb and reached the top just as genuine improvement began. The movements of 1896 are out of gear. Stocks were no higher near the middle of the year 1897 than in 1895, while business had been steadily increasing. This was due to the fact that our stock prices were adversely affected in 1896 by the world-wide apprehension as to the sta-

* This chart appears on page 48 of the Book of Charts issued in connection with this volume.

bility of our money. The good growth was there but the security was questioned. In 1903, the stock market over-discounted a great recession in general business, which recession failed to materialize.

That very large class of people who try to convince themselves and others that stock prices are made by manipulation have their answer in this chart. Manipulation exists, of course, but it has never been sufficiently potent to reverse the natural tendency of prices. The successful manipulator works with the current, not against it. As the physicians say, he assists nature. It is true, manipulators frequently bid a stock up near the top of a movement in order to make a market, and vice versa, but this does not affect the long swing of prices.

A much discussed question at present is that of the probable extent and duration of this upward movement. Prophecy in regard to day to day movements of a point or two resolves itself into idle words, empirical mechanical theory or rank guesswork. In the range of prices by days for the year 1907, which is mailed this week to subscribers, it will be found, that during the entire year prices did not move in one direction for more than seven consecutive days, and even that movement was not duplicated. The days of decline during the year were, of course, more numerous than the days of advance, but not in any such proportion as is popularly believed. Let me again employ a table.

Advances and Declines in Stock Prices by Months in 1907.

Mo.	No. days of advance	No. days of decline	Aggregate advance (points)	Aggregate decline (points)	Adv. in points	Decline in points
Jan. . .	8	17	4.40	9.56		5.16
Feb. . .	10	11	6.28	7.50		1.22
Mar . .	11	14	21.43	31.21		9.78
Apr. . .	12	14	8.58	5.55	3.03	
May . .	9	17	3.62	10.54		6.92
June .	12	13	6.59	4.18	2.41	
July .	14	12	5.42	5.76		.34
Aug . .	11	15	7.94	13.95		6.01
Sept. .	9	15	5.06	7.53		2.47
Oct. . .	9	18	5.08	15.25		10.17
Nov . .	14	10	10.26	9.09	1.17	
Dec. . .	12	13	6.75	7.35		1.60
Total .	131	169	91.41	127.47	6.61	42.67

These figures are not offered as a basis for trading. The only value they possess is of an educational nature. The question of the trend of prices in 1907 admits of no debate—it was downward—yet out of 300 market sessions, there were 131 days in which prices advanced and the total decline of about 36 points during the year was the net result of 91 points of

advance and 127 points of decline. There are two important things here for the trader to consider; first, the uselessness of expecting a protracted movement one way or the other without reversals and, second, the suicidal folly of attempting to take advantage of intermediate movements. The man who tries to work both ways in the same period is a goner. In my letter of March 16, 1907, I called particular attention to this error, and pointed out the fact that the man who sold stocks on rallies could not fail to come out all right even if he had to sweat a little now and then, but that the man who purchased on reactions might be hung up for a year or more. At present this theory is reversed in its operation. The man who sells at this level is the one who is in danger of being hung up.

Another interesting question is that of the ordinary rotation of stocks during the first stages of an advancing market. It is a matter of precedent that at such periods one or two stocks advance as leaders, and rest around their high levels while more dormant shares move to a fairly corresponding level. There are at all times specific influences which affect certain shares either favorably or unfavorably, and in consulting the following table it would be rash to adopt any fixed rule contemplating the purchase of stocks blindly merely because they had not yet advanced. On the other hand, it is unquestionably true that in great movements to high or low prices there is a mechanical sympathy which causes the sheep and the goats to mingle and move in the same direction without due reference to intrinsic merit. So far the improvement in active stocks, measured in percentages (not points) is as follows:

Dividend-Paying Rails.

Road	Common Stock Low Price Nov., '07	Common Stock Present Market	Per Cent Advance
Atchison	67½	73	8.5
Atlantic Coast	58	73	25.8
Balt. & Ohio	75½	88⅞	17.9
Ches. & Ohio	23¼	31¼	34.3
C., M. & St. Paul . . .	93½	115½	34.2
Chic. & N. W.	128½	150¼	16.9
Great Northern	108½	123¼	13.6
Ill. Cent.	116	131½	12.5
Louisv. & Nashv. . . .	85½	100¾	18.1
Mo. Pacific	44½	45½	2.2
N. Y. Central	91½	101½	11.3
N. Y., N. H. & H. . .	127⅜	136½	7.3
Norfolk & W.	61	67½	10.7
Pennsylvania	103½	116	12.0
Reading	72½	108½	50.0
Southern Pac.	64¼	75⅛	16.9
Union Pac.	105½	125⅛	18.5

Non-Dividend-Paying Rails.

Road	Common Stock Low Price Nov., '07	Present Market	Per Cent Advance
Chic. Gt. West.	6⅞	5½	*20.0
Colo. & South.	17	25⅜	49.2
Denver & Rio G. . . .	16	20½	28.1
Erie	12¼	15⅝	27.4
Mo., Kan. & Tex. . . .	20¾	23½	13.4
Southern Ry.	10	10½	5.0
Tex. & Pac.	17½	19¾	12.8
Wabash	8	9½	18.7

* Decrease; road in hands of receivers.

Dividend-Paying Industrials.

Company	Common Stock Low Price Nov., '07	Present Market	Per Cent Advance
Amal. Copper	44½	51⅝	16.0
Anaconda	29⅞	32⅞	10.0
Am. Car & F.	24⅝	31¾	29.0
Am. Sugar Ref.	99⅝	112½	12.5
Am. Loco.	32¼	39⅞	23.4
Am. Smelt. & Ref. . .	58¼	74	27.0
Consol. Gas	80⅛	102	27.3
Distillers Sec.	37⅞	33¼	*12.1
People's Gas	71	87¾	23.6
U. S. Cast I. Pipe . . .	17¾	19	7.0
U. S. Rubber	13½	24	7.8
U. S. Steel	22¼	29½	32.6

* Decrease.

Further comments as to the merits of individual stocks and the probabilities of advance will be made in future letters.

The General Situation.

The general situation continues promising. The reduction in the discount rate of the Bank of England; the reduction in the Berlin rate, and our own quick switch from extreme stringency to easy money warrant the belief that we need have no further apprehension in regard to money affairs for some time to come. Many stocks with a reasonably assured rate of income, such as Pennsylvania, are yielding 6% or 7%, while time money is available at 5%. This gap must be filled one way or the

other; either loaning rates or stock prices will advance until money, like water, has reached its own level. In my opinion, the advance in stock prices is what may be expected.

We are no doubt facing a period of decreases in railroad earnings. Gross, as well as net, will fall in some quarters. This has probably been discounted in stock prices. Tables have already been produced in previous letters demonstrating the fact that stock prices precede the movement of earnings by six months or a year. When the actual figures are set forth in published reports of a certain corporation, they may exert a little temporary influence, but not much.

The Technical Situation.

The technical situation remains sound. There has been some public buying of a poor character this week, but this has been offset by a good deal of short selling by the reactionists. A large number of people are still standing around awaiting a material reaction on which to make purchases. I do not believe they will see their hopes realized. If we were in a period of high prices at which the great holders wished to dispose of stocks, this reactionist accumulation would be welcomed and fished for, but if stocks are low in price and not pressing for sale, there is no object in transferring good things to the public investor. Later on and at higher prices, an undesirable element will enter the market whether the big ones want them or not. Then we may expect a setback which will be more extended in time and scope than anything now anticipated.

The technical situation is strong.

Conclusion.

I consider good stocks a purchase on all declines or at this level. Declines will be limited, and recoveries rapid. From the standpoint of intrinsic merit and the technical situation combined, I like Atchison, Pennsylvania, Union Pacific, Southern Pacific, Chesapeake & Ohio, Norfolk & Western, Louisville & Nashville, Baltimore & Ohio, Reading, Northern Pacific, Great Northern, United States Steel and Distillers. Such stocks as Missouri Pacific, Missouri, Kansas & Texas and Erie, which have suffered from specific cause, may also be purchased now, as their troubles have been well discounted.

January 25, 1908.

In advising clients Monday to get off the long side of the market temporarily, it was not my intention to convey an impression of bearish feeling. There is, as I construe the matter, a big difference between expecting a natural and inevitable reaction and becoming bearish on the market. My reasons for the temporary change were founded primarily on technical conditions, which, it is unnecessary to state, can change very quickly. In the last half hour Monday there was some distribution of stocks, the importance of which could not be underestimated. When large interests which have been active on the long side for a period suddenly abandon their position there must be a reason for it, and whatever that reason may be they certainly sell in anticipation of a decline which will permit of repurchase at a lower level.

Another point which contributed to the change was the fact that money affairs were being overworked as a bull factor. Easy money is now a foregone conclusion. It was all right to buy stocks when our financial matters looked very blue, on the theory, which has since proved correct, that money matters would be readjusted quickly, but after the readjustment becomes a certainty, its speculative effects are dead. It is obviously impossible to speculate on certainties. I do not mean to say that this gratifying rehabilitation of our monetary affairs is a dead issue by any means. The low rates will be very helpful in the future, but we have had a fair advance in stock prices, founded almost solely on the anticipation of easy money. Therefore we can go a little further afield and search out new reasons for future advances.

The great bear weapon at present is the probable falling off in railroad earnings, and to this factor we may well turn our eyes. It is practically certain that there will be a further decline in this direction, but this fact has created much needless apprehension so far as future stock prices are concerned. This widespread fear has been increased by the careless statements of financial writers.

In the last week or two it has been stated in numerous market letters and financial columns that "our falling off in earnings will be more severe than in 1893." This at once conveys the impression to readers that we are now suffering a more severe depression than in 1893. It is impossible to imagine anything more fallacious than this form of reasoning.

The great decline in railroad earnings occurred in 1894, not in 1893. 1894 was the year following a panic period, so is 1908. If comparisons are to be made at all, they should be made with periods which correspond.

In the letter of January 11, I produced a table showing the percentage of increase or decrease in railroad earnings since 1892. As this tabulation has a distinct bearing on the subject under discussion it is reproduced below:

Table Showing Percentage of Increase and Decrease in Railroad Earnings for 16 Years.

(Comparisons with corresponding month of each preceding year.)

Year.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
1892	2.57	13.43	8.54	3.68	2.16	7.43	2.34	7.27	2.90	1.85	2.71	2.38
1893	*0.93	*5.04	1.05	*3.48	13.51	*1.13	*14.35	*7.09	*7.95	*4.29	*1.96	*16.84
1894	*12.25	*12.54	*13.05	*14.86	*17.55	*21.48	*20.49	0.79	*6.22	*5.59	*1.58	*0.62
1895	*0.07	*2.11	0.63	4.65	6.38	8.29	15.97	1.63	5.47	6.59	6.42	9.15
1896	10.99	13.52	4.42	3.41	2.28	6.80	4.02	*2.61	*0.42	*4.38	*9.97	*1.41
1897	*6.78	*0.89	*1.60	1.44	5.14	2.17	5.16	12.40	14.14	8.97	20.79	12.37
1898	16.56	13.79	15.25	15.47	14.08	6.38	1.78	4.93	6.04	4.91	4.58	7.10
1899	7.10	*1.02	6.35	4.23	6.96	14.06	17.15	13.48	11.08	10.91	10.48	7.45
1900	15.14	19.86	12.50	12.69	10.67	9.23	5.86	6.14	2.21	5.03	2.14	9.05
1901	7.94	7.50	7.43	8.94	9.41	6.80	13.40	12.67	10.46	11.87	12.22	5.05
1902	7.61	3.92	6.30	11.03	9.18	7.16	7.65	4.76	9.55	6.71	6.97	9.86
1903	9.40	13.86	14.42	13.67	11.98	14.02	11.96	9.18	6.98	5.34	4.03	4.66
1904	*4.55	2.60	*0.06	*3.18	*2.77	*0.81	*5.35	0.51	2.81	3.20	9.51	7.92
1905	6.58	*3.01	9.73	7.35	11.09	9.66	10.02	9.23	9.28	8.54	10.35	9.54
1906	20.88	26.36	10.61	6.78	9.83	12.11	13.73	12.11	7.58	10.77	6.24	7.90
1907	2.23	6.05	9.65	21.45	18.12	13.59	14.28	12.27	9.71	8.56	2.52	*4.28
Total Increase	107.00	145.50	106.88	114.79	130.79	117.70	123.32	107.37	98.21	93.25	98.96	92.43
Total Decrease	24.58	24.61	14.71	21.52	20.32	23.42	41.19	9.70	14.59	14.26	13.51	23.15
Aver. Net Inc.	5.15	7.55	5.76	5.82	6.90	5.89	5.19	6.10	5.22	4.93	5.34	4.33

* Decrease compared with earnings of corresponding month of previous year. Figures are compiled from Financial Chronicle reports.

It will be observed that the greatest declines in earnings occurred in the first seven months of 1894, but from July, 1893, to July, 1894, stock prices advanced 30%. To many people it seems unreasonable to look for an improvement in stock prices in 1908 in the face of a decrease in railroad earnings; but look at 1894. What happened then is not a matter of theory, but of stubborn fact. The secret of the whole matter is that stock prices did not follow or accompany the decreases in earnings, but anticipated them. The same thing will be true of 1908.

Another thing is worthy of note in this everlasting analogy with 1893. The declines in railroad earnings in 1894 are based on a comparison with 1893—another poor year. This greatly magnifies the disaster. At present we are comparing our declines with several banner years. We may look at the matter of earnings in much the same light as we would a reaction in the stock market. If we have had a tremendous advance we may look on a decline from top prices with equanimity.

This is our present position. But if we had suffered a bad decline, followed by one even greater, the matter would become serious. This was the case in 1893-94.

Roughly charted, the movements of earnings in 1892-1893 and 1894, as compared with 1906-1907 and (tentatively) 1908, would look about as follows*:

Here are two distinct reversals. One was a great decline following only a moderate increase; the other a decline, whatever its proportions may prove to be, which follows a gigantic improvement.

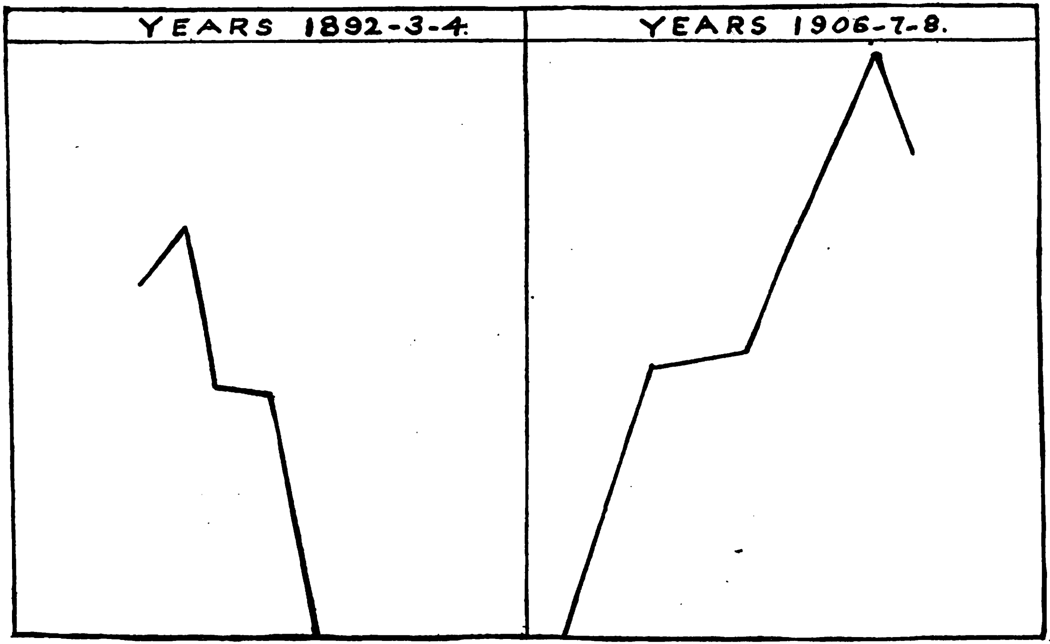
It has already been contended frequently in these advices, that analogy with 1893 is not warranted. The basic factors are entirely different. The whole affair is a contrast, not a comparison. Laying aside the facts that in 1893 we suffered from the worst crop failure, with one exception, for twenty-five years, and that the stability of our medium of exchange was becoming questionable, we may look at our balance of trade as shown by exports and imports. This is best illustrated by a chart.†

The movements of stock prices have followed our trade balances faithfully. In 1893 we were a debit nation. In 1907 our credit balance runs over $500,000,000. This is not fully reflected on the chart, as figures for the fiscal years ending June 30 were employed, but both trade balances and stock prices have moved upward in recent months.

In this chart and the chart produced last week, showing the relation between stock prices and bank clearings, we find a remarkable uniformity of action. This is natural enough. The bank clearings represent general business and the trade balances

* See diagram between pages 26 and 27.

† This chart appears on page 47 of the Book of Charts issued in connection with this volume.



* Diagram referred to on page 26.

represent the profitable marketing of our surplus merchandise. Neither the charts nor the figures on which they are based can be considered as a guide to immediate market action. What I seek to establish is the fact that we may gain a useful and dependable insight into the long future by consulting these salient factors and by keeping thoroughly posted as to fundamentals, present and prospective. It may appear to many readers that the statement that our stock prices move with our general prosperity as reflected by such factors as trade balances, bank clearings, etc., is orthodox and pedantic. It is certain, however, that such factors do not receive the respectful attention they deserve. If we can get at the genuine foundation and correctly judge the trend of prices, we have performed the most important part of our work. Incidentally, we may examine the technical situation and other minor factors in order to get a line on intermediate changes.

In next week's letter I will chart the relations of income returns on stocks and the price of money, and on February 1, the influence of crops on stock prices will be shown. This series of charts should give us a pretty good idea of the relative importance of the most vital factors.

The General Situation.

The general situation is improving. Reports from all quarters show a cheering convalescence in trade circles. About all our clearing house certificates have been retired, and by the end of next week, this much discussed form of credits will be a thing of the past. The expressions of unbiased, but competent men, as to the metals trades are reassuring. Railroad earnings have already been mentioned, but in this regard it may be added that the second week of January will compare more favorably with January, 1907, than did the first week. It is gradually dawning on many observers that fright has been a very large factor in our recent spasm, and that fear is evaporating very rapidly.

It is pointed out by some students that with our growing ease in money, the railroad corporations will soon become large borrowers and that stringency will again result. That the railroads need money, and that they will borrow at the first favorable opportunity is certain, but the supply and demand will adjust itself automatically. These corporations have borrowed money since the inception of railroad building. Credit is as necessary in this quarter as in any other line of business. The fact that they are able to borrow, should be construed as a bullish, not a bearish, factor. If their requirements are great enough to keep the price of money firm, so much the better. We have more to fear through redundancy than through stringency now.

I consider the general situation most promising.

The Technical Situation.

The technical situation is not so good as last week. There has been considerable distribution of stocks by large interests hitherto active in supporting and advancing prices, and there has also been some poor buying by the traders who have been waiting for a reaction for a month or more and who very much underestimate the extent of a reasonable setback. It is not at all unusual, even in the best of markets, to find a ten or twelve-point average advance followed by a five-point average decline. This decline, of course, means two points in some stocks, and ten points in others. It is almost invariably the case that the culmination of such reactions is sharp, and is accompanied by a flood of inspired bearish news. Reactions, like rallies, are almost invariably underestimated by the average trader.

The technical situation is not rotten, but it is not satisfactory at the moment.

Conclusion.

I see no reason to change the recommendations offered in my daily letters this week, that a neutral attitude is justified for the present. This does not mean that I am bearish. On the other hand, I look for a very material advance before long, and stocks purchased even at the very top of the recent movement will soon show profits. There is a good fighting chance, however, that we will be able to pick up stocks a little lower on this movement and escape the tiresome and exasperating experience of sitting on purchases through a period of sagging prices and dullness. This view is subject to immediate change. The whole proposition may assume a different aspect in the course of one day's session. I will add that I do not advise short sales in any quarter. Such operations offer a possibility of a few points profit as against a possibility of enormous losses. The hazard is out of all proportion to the possible gain.

Continue to advise a waiting attitude for the present.

February 1, 1908.

The stock market has had a great deal to contend with this week and people are in a state of mind which lends unusual potency to items of bearish news. We have heard so much about the hostile attitude of legislators during the last year; so much about the utterances of our chief executive and the evil effects of such utterances on security prices that we view with apprehension anything new in this line. The poor December earnings of the Steel Company, a number of bad

railroad reports and the suspension of several New York banks have added to the feeling of trepidation. In regard to the component last named, it may be said that it is merely a reverberation of our recent banking troubles. The elimination of such institutions as have been weighed and found wanting is healthful and makes for increased security and strength in the financial body.

When we consider the one-sided character of the news this week we may view the action of the market as an evidence of strength rather than of weakness.

It is vitally important, so far as the broad view of conditions goes, that we reflect particularly on the importance of great fundamental factors and let these ghosts and echoes go. The trend of the market is not shaped by rumors or incidents, but by what is really basic. Give us good business and good crops and we can ignore the machinations or misfortunes of individuals, as well as the temporary effects of timidity. It is unquestionably true that the bits of news which are promulgated from day to day have a limited effect on fluctuations, but in nine cases out of ten such news is diametrically opposed to the more important underlying influences. This has been the case at the extremes of all important movements. To bring the matter within the memory of every one interested it may be pointed out that in January, 1907, a few people began selling stocks because of the inflation of credits; the belief that earnings would fall off in 1908, etc., and, incidentally, because of the high level of security prices. At that time every item of news was distinctly optimistic. Earnings were increasing rapidly, general business was good, prosperity was rampant and the financial sky appeared cloudless to the superficial observers. But the minority sold stocks, ignoring the cheerful certainties of the present and basing their operations on the factors which menaced the future. To advise selling of stocks in the early part of 1907 was to invite ridicule and by the same token, the man who advises purchases now, labors under suspicions of lunacy. When our market was at its pinnacle, the items of current good news brought about spasmodic advances and these advances a certain contingent welcomed as opportunities to liquidate holdings; now, per contra, our items of current bad news bring about spasmodic declines and this same contingent welcome the weak spots as opportunities to accumulate. It is also noteworthy that the same people who were enthusiastic about stock prices a year ago are sellers of stocks now.

The more important fundamentals referred to above, such as our state of foreign trade, general business and money conditions, have already been discussed in these advices and no cause for alarm is apparent. The evils have been measured and discounted and the future is promising. Our foreign trade shows extremely well, general business is still slow, but there

is a hopeful tone among merchants and stocks on hand are small. Money conditions have been quickly rehabilitated, and while this factor is of no immediate speculative importance for the reason that it is a known quantity now, it must be admitted that the improved money conditions are being reflected daily in the absorption of securities. The bond market demonstrates this fact very forcibly and while it is more difficult to measure, the absorption of junior issues, such as preferred and common stocks, it is reasonable to assume that in any period of public investment a goodly portion of the funds seeking employment is diverted to the speculative securities.

The next important fundamental bearing on security prices will be our 1908 crops. We cannot afford to have poor crops this year, and the prospects should be given careful consideration. It will not be long now until we begin to get some light on this subject, and it is a rather difficult question to handle properly. The crop-killers are in evidence every year and their ravings must always be taken cum grano salis, but by exercising due discrimination as to what is true, and what is untrue, improbable or interested, we may be able to get a pretty good line on prospective conditions. I found little difficulty in arriving at the approximate figures last year, and as the facilities in this direction will be extended during the present year, I hope to be able to reach fairly accurate conclusions.

It is found that the movements of stock prices and the volume of our cereal production have, in the past, moved very uniformly. As an illustration of this fact I have prepared the following chart* showing the relative movements of stocks and cereals for a number of years. I have employed as basic figures the totals of all important cereal crops, wheat, corn, oats, rye, barley and buckwheat. The figures for 1907 were not available at the time the chart was placed in the printer's hands. We made in 1907, 4,180,303,000 bushels of all the cereals considered, as against 4,854,514,000 in 1906.

It is true that the different factors recently charted in these letters—trade balances, bank clearings and crops—are interrelated and interdependent, but by examining all we may best support our conclusions. It may be contended that the line of price as well as the line of volume should be given its place in the crop chart, but it is my opinion that this is not true. If we were looking at cotton or at wheat as entities, we might well consult the prices secured because of the large exportable surplus, but high prices secured in our own borders is too much like swapping dollars. Of our great corn crop, for example, we only export about four per cent. and this is not greatly magnified by a consideration of meat exports, which may be looked upon as corn in another form. It is infinitely better that we should make two billion bushels of corn at 50c. than one billion bushels at $1. This economic fact is particularly pertinent in

* This chart appears on page 46 of the Book of Charts issued in connection with this volume.

its bearing on security prices, for large crops mean increased traffic, the full employment of labor in farming districts and consequently even distribution of purchasing power in such communities.

Crop conditions, trade balances, bank clearings and general business conditions will hereafter be discussed in these advices weekly, and whenever figures are available they will be set forth in tabulated form.

The General Situation.

The general situation continues hopeful, but there is as yet no evidence of important resumption in any line. The municipal press is rather inclined to exaggerate the favorable features of the situation. The dependable trade organs do not confirm the effusive optimism of the general press. It may be said, however, that whatever changes occur are of a constructive character. It would be unreasonable to expect the immediate and complete cure of a serious illness such as the mercantile and financial world has recently suffered from. It is gratifying to note that no relapse occurs and that the patient is convalescent.

The bank suspensions in New York this week do not directly affect listed securities except in a sympathetic way. Securities now held by such institutions are not on the active list.

I consider the general situation sound and promising and look for marked improvement in due time.

The Technical Situation.

The technical situation is somewhat improved this week. The bearish news has incited considerable short selling and has also driven an easily frightened weak contingent off the long side. The absorption of stock continues good and the scarcity of shares is evident whenever there is a buying movement. There is marked absence of pressure to sell. I consider the technical situation very good.

Conclusion.

In my opinion the market is a one-sided affair, with purchases on little declines the only safe method at present. Atchison, Pennsylvania, Baltimore & Ohio, Reading, Union Pacific, Southern Pacific, Chesapeake & Ohio, Louisville & Nashville, Norfolk & Western, Great Northern and Northern Pacific are best in the rails. In the industrials I like the United States Steel stocks particularly and Distillers should do better. The copper stocks should advance on the improvement in metal prices. Short sales in any quarter are hazardous.

February 8, 1908.

The chief influence in the market this week has been talk. The utterances of President Roosevelt, Governor Hughes and Citizen Bryan had to be digested. Both Mr. Roosevelt and Mr. Bryan have bitterly denounced Wall Street and its methods and the Stock Exchange contingent has been ground between the upper and nether millstones. It would appear that both party leaders have decided that this is an opportune time to roast the Stock Exchange on the theory that everyone has suffered more or less in the recent severe decline in prices and that such a campaign of hostility must prove a popular issue just now. Mr. Bryan's tirade was particularly disturbing, as people remember 1896 pretty distinctly and reflect on the fact that in that year, during Mr. Bryan's candidacy and largely because of his candidacy, stocks reached the lowest prices in history. 1896 is the only year which shows a marked decline in stock prices in the face of favorable trade conditions and fundamental business health.

It is probable that both Mr. Roosevelt and Mr. Bryan are greatly overestimating the popularity of their Stock Exchange issue, partly through ignorance of the character of the decline of 1907 and partly through the dangerous error of belittling the intelligence of their audiences. The panic of 1907 brought less injury to the so-called public than any similar event in history. A great many people of moderate means are buying stocks now —they know they are cheap and apparently care nothing about political speeches as long as the value of the property is there. They appear to believe that it is impossible to talk values away. There is no such pending issue now as that of 1896, for while Mr. Bryan may roar a little about silver we know that it won't go.

It is my opinion that the rank and file of public observers are more inclined to attribute the severe decline in stock prices to the men who are railing against the Wall Street financiers than to those financiers. My own means of keeping in touch with public opinion are probably as extended as those of the next man. My correspondence is diversified both as to the territory and size of commitments. No one seems to feel very sore about "Wall Street." If there was any widespread hostility it would certainly be reflected in such a correspondence, but the people who write letters of inquiry don't seem to cuss Wall Street or anyone else. They want to know how much money a certain corporation is earning, who are the officers, what are the basic values of its products or the character of its traffic, etc. This form of reasoning and investigation is a consummation devoutly to be wished, and if such methods are persisted in we are going to have a very short crop of lambs.

Mr. Byron W. Holt compiled figures some time ago showing the movements of stock prices and bank clearings in presi-

dential years since 1868. These figures are very interesting at present. Mr. Holt based his price line on ten leading railroad stocks, comparing the low prices of January with the low prices in May and November. The result was as follows:

Average Prices Ten Leading Railroad Stocks.

Year.	Jan.	May.	Nov.	Per cent. Increased or decreased.
1868	109.2	118.2	117.6	+ 7.7
1872	101.6	102.4	98.1	— 3.4
1876	95.1	90.4	75.6	— 21.4
1880	107.7	105.7	132.8	+ 23.3
1884	99.7	85.5	89.6	— 11.5
1888	105.5	99.7	99.4	— 6.8
1892	97.3	99.1	97.0	— .3
1896	68.4	74.4	66.9	— 2.2
1900	95.4	99.4	102.4	+ 7.3
1904	118.8	117.4	138.7	+ 16.8

Total of increases	55.1
Total of decreases	45.6
Excess of increases	9.5

Commenting on this table Mr. Holt said:

"From these figures we see that, while it is true that the prices of stocks have declined in six, and have risen in only four, presidential election years, yet that in two of these years the decline was so small as to be almost negligible, while the total increases in the four years were 20% greater than the total decreases in the six years. The prices of stocks, therefore, do not indicate that presidential election years are either better or worse than other years."

In regard to general business as indicated by bank clearings another table was produced showing that at least three out of the last seven presidential election years were prosperous. The conclusion reached was briefly as follows:

"It will be noted that bank clearings increased 9.5% in 1892, while stock prices declined .3%. Also that bank clearings declined 8.5% in 1900, while stock prices advanced 7.3%. Otherwise these two tests agree for the different years. They indicate clearly that presidential election years average up well with other years and that there is little or no foundation in fact for the notion that these years are almost necessarily years of stagnation or depression."

There is a tendency at present to fear a long period of dullness and narrow fluctuations. Few of the exponents of

this theory give due consideration to the fact that we have already undergone such an experience. Taking the 41 rails and industrials on which my daily barometer of prices is based, we find narrow extremity movements covering the last three months. In November the highest reached was 60.52 and the lowest 56.24, an extreme range of 4.28 points. In December the highest was 62.74 and the lowest 58.41, a range of 4.33 points, and in January the highest was 65.30 and the lowest 60.72, a range of 4.58 points. It is certain that after a great decline the market "drags on the bottom" for a more or less protracted period with a gradually improving tendency. That this is exactly what has been happening for several months is brought more clearly to the eye by means of a chart.*

At the request of a number of readers I reproduce below† a chart published last year showing the movements of prices of United States Steel stocks as compared with earnings. The chart has been brought down to date. The chart shows in an interesting manner the anticipatory tendency of prices. This was not apparent in 1904, but the stock was at that time suffering through distrust. The condition of the company is entirely different now, principally because they have been conservative in the matter of disbursements. It is not probable that Steel common would have ever reached the low figures of 1903 and 1904 if they had not overdone the matter of dividends in that period.

The General Situation.

The general situation shows signs of quiet improvement and there is a hopeful feeling among business men. The best barometer of general business is railroad earnings. The third week of January shows a decrease of 7.37% from the corresponding week in 1907. This compares with a decrease in the second week of January, 1908, of 13.39%. The showing is still poor as compared with last year, but an improving tendency is apparent.

The cheerful feeling in business circles is not reflected among speculators. It is invariably the case in a blue period that unfavorable items are emphasized much more strongly than favorable ones and this is forcibly illustrated at present. If a mill or factory resumes operations we hear little about the matter, but if there is a shutdown it is sure to receive attention. When we consider the amount of ammunition which has been placed in the hands of the bears during the last two or three months it certainly speaks well for the market that it has more than held its own.

Bank clearings for the entire United States for the month of January, 1908, were $11,359,308,232, as compared with $9,407,-

* This chart appears on page 21 of the Book of Charts issued in connection with this volume.

† This chart appears on page 51 of the Book of Charts issued in connection with this volume.

038,000 for the preceding month and $15,020,747,000 in January, 1907.

The Technical Situation.

It is claimed by the exponents of lower prices that the short interest has been greatly reduced and is no longer a supporting factor. It is pretty hard to follow the reasoning of this contingent. They express extremely pessimistic views as to the future of prices, but do not explain why their brethren have retired their commitments for short account if the market is going much lower. Nor do they explain who is absorbing the sales of stocks in a narrow price range if there is no short interest. The matter is not important, however, as it is untrue. There is a normal short interest in the market and it is of a weak character. The bears are aggressive at times, while the buyers say nothing except to accept bargains as they are offered. The sellers of stocks to-day are of the highly speculative order and the buyers are investors or men who operate on large margins for a long pull. A prominent financial writer, speaking a few days ago of the chronic bear, said. "Generally speaking, the money a bear takes out the market he only borrows; all that he really makes he spends.". He might have added that the number of fortunes accumulated on the short side of the stock market can be counted on the fingers, while those built up by judicious purchases are legion.

The technical situation is good, and any fright on the part of the bears will result in a sharp advance. This may be deferred for a time, but it will come before long. The extreme scarcity of the floating stocks will be quickly demonstrated when purchases are attempted in any volume.

Conclusion.

I can see nothing in the present situation to depress stock prices materially. Considering the very low range of prices, the evidences of improvement in business and the character of the buying, I recommend purchases of good stocks on all declines. In the railroad group, Atchison, Pennsylvania, Reading, Chesapeake & Ohio, Union Pacific, Southern Pacific, Great Northern, Northern Pacific, Baltimore & Ohio, Louisville & Nashville and Norfolk & Western look very cheap. In the industrials I think both the preferred and common stocks of the United States Steel Corporation an excellent bargain.

February 15, 1908.

In these advices I have set forth from time to time the salient factors bearing on stock prices at present. Having discussed the different influences separately it is now thought best to combine them and draw as complete a conclusion as possible. The space at my disposal is limited and it will be necessary to

confine the discussion to suggestions, supported and illustrated by charted history and a few figures.

In entering the subject of probable stock investments we can begin with three questions:

1.—What have been the salient factors in the long swing of stock prices in past years?

2.—What is the status of these factors at present?

3.—Is there anything in the present situation which might modify or eliminate the potency of these factors?

It is my opinion that general business conditions as represented by our crops, our foreign trade balances, and our bank clearings are so important as to submerge all other influences. There are also the questions of the money markets and politics, but if fundamental business conditions are good these things will adjust themselves, or at least be powerless to reverse the current of improvement. It may be contended that this statement has been disproved by recent political events, but I think not. The decline of 1907 was due almost entirely to basic causes. It is always the case that great stock market declines are attributed to causes which did not produce them. In this regard I may point out that as early as December, 1906, I began calling attention to the inflation of prices, the over-expansion of credits, the too rapid growth of mushroom enterprises, etc., and then predicted a long-continued and serious decline. In this diagnosis, I took no note whatever of politicians or political issues. It is certain that the fright occasioned by "ghost dancing" has had some effect on prices, but the major portion of this decline would have occurred regardless of the issues raised or the individuality of the incumbents of office.

Gold production has already been discussed in these advices and the limitations of a letter forbid entering so large a subject. The bearing of the gold supply on prices is more important as affecting the long swings than the immediate course of the market and what we want to get at now is the next important movement.

An examination of the chart which accompanies this letter* will demonstrate clearly the movement of stock prices as compared with the movements of the balance of trade, bank clearances and crops. Of course, all these factors are more or less interdependent. We may look to the crops as the most vital factor, for with good crops we are bound to be a large creditor nation and with good crops we have good general business, which is reflected in the clearings. In short, we can almost superimpose the lines representing stock prices, trade balances and clearances on our line of crops. This being the case, we have arrived at an important conclusion, i. e., that the production of salable materials—wheat, corn, cotton, minerals, anything and everything of value—is the real basis of stock movements. To this factor all other things must be subsidiary, else we

* This chart appears on page 13 of the Book of Charts issued in connection with this volume.

would find many cases of marked divergence in the movements shown, instead of a pretty fair parallel. There is one case of such divergence (in 1896) which will be discussed when the third phase of the subject is considered.

It will be understood that in referring to the unanimity of action between crop conditions and stock prices the matter cannot be taken too literally. The line which shows actual production lies behind the line of stock prices, because the stock prices were made in anticipation of good crops before the actual figures of production were established. Again, stock prices invariably overleap themselves on either upward or downward movements, a thing which it would be obviously impossible for mere statistical exhibits to do.

The conclusion offered is that nothing has had power to sever the relations between general business conditions and stock prices. War, earthquakes, losses by fire, political disturbances have all been ignored if the real business foundation was sound.

It is important therefore that we give our first and most careful consideration to crop prospects from now on. This is a factor which will require great care, discrimination and dependable information. Every year there is a scare and the crop-killer will soon be abroad in the land. I hope to be able to get at the approximate truth and to keep my clients well posted.

As to the status of general trade and business at present it may be said that it is bad, but that there is improvement. This view is not a theory, but is founded on an examination of the number of mills and factories resuming work, number of men re-employed, the percentage of steel and iron production, bank clearings, trade balances, etc. As compared with December the improvement is positive and certain. The prospects of a continuance of this betterment are also good, particularly because of the small supply of manufactured goods in stock. So far as I can judge it will not be long until the wheels are turning again in a normal manner. Money is no longer a factor for immediate consideration. No one need be frightened if the currency bills are talked to death. Our money troubles are over for a long time to come, and the measures for alleviation in that quarter are in the nature of locking the stable after the horse is stolen. We have now more to fear from redundancy than from paucity, and in scrutinizing the rates for time money we may figure that firmness is a better sign than too much ease, for firmness in rates means that money is being employed in commercial lines.

As to the question of the present situation containing factors which might nullify the effects of improving business or good crops it may be said that our political affairs and policies constitute the only obstacle to stock price movements along natural lines. The importance of this influence is, in my opinion,

greatly overestimated. Referring to our chart again, we find that in 1896 stock prices did not respond to normal crops and good business. On this isolated instance the bears build a comparison and the timid ones suffer a chill. "See what happened in '96" these people say; "it was Bryan then, and here is the bogey man again." But it was not Bryan in 1896; it was the question of the stability of our money. It was the issue, not the man, and that issue, even though its dry bones rattle now and then, is as dead as a door nail. The issue at present appears to be attacks upon capital and combinations, but the exponents of this policy assure us that they are working for the benefit of the stockholder. Calmly examined, there is something in this, and if nothing worse occurs than the elimination of weak spots and dishonest promoters the stockholder may congratulate himself. True, there is danger always when men tamper with engines which they do not understand, and no doubt the small stockholders have fervently asked the Lord to deliver them from their friends of late, but this is due to the erroneous belief that the shrinkage in prices has been occasioned by causes which did not bring about that shrinkage and which could not possibly have brought it about. There is much laughable confusion of thought as to these "vital" issues. For example, the decline in stocks in 1907 was persistently attributed to the inability of railroads to borrow money, and during the last week one of the principal bear weapons has been the projected bond or note issues. Because they could not borrow money stocks declined and now because they can borrow money stocks decline. But this contortion of news to suit the wishes of manipulators is no new thing. Union Pacific was vigorously advanced a month ago on the theory that a segregation of interests would result in a melon-cutting, and now, by the same token, Union Pacific declines because of a government suit which contemplates nothing but such a segregation.

I have already produced figures to show that a presidential year was not necessarily a bear year. As to the minor political issues, such as the elimination of marginal speculation, etc., it may be pointed out that this kind of agitation has followed every great decline in history. Such issues are merely a bid for popular support and are wholly innocuous. The politicians figure that after a slump people have lost money; that people who have lost money are sore, and that the man who attacks the dragon which swallowed their money will be popular. I do not think the present situation contains anything evil which has not already been overdiscounted in the prices of securities. In forming our opinions as to the probable trend of the market the level of prices must always be carefully considered. It is much easier to fall from the top than from the bottom. The present range of prices, everything considered, is lower than at any time in twenty-five years.

To sum up; it is my opinion, that with good crops we may

expect a great advance in stock prices. In speaking of good crops I do not mean bumper crops. A normal crop is a good crop. Meanwhile the tendency toward improvement in general business will probably stimulate the market pending some definite news as to crop prospects.

Reverting once more to the chart, it will be observed that no matter how faithfully the stock market may have followed business conditions there have been numerous fluctuations. The market has declined now and then while conditions improved. This has been the case during the last week or two. It is idle to attempt to guess these little reversals; they can only be accepted as opportunities to accumulate stocks at a concession.

I realize how little I have been able to say on a very large subject in this letter, but I earnestly recommend to my friends that they reflect carefully on the points suggested. The present situation is particularly important in that it offers unusual opportunities to pick up bargains. A correct assimilation of the broad principles as opposed to mere talk and fright will permit the speculator to arrive at correct conclusions with a facility and accuracy which will surprise no one so much as himself.

The General Situation.

As stated above, there is a marked tendency toward improvement in the business situation. The bank clearings for January, while showing a considerable falling off as compared with January, 1907, were about two billions above December, 1907. The full figures were given in last week's letter. Complete returns as to foreign trade for January are not yet available, but the trade balance will be around $120,000,000. This exceeds the figures for December by at least $50,000,000, and December was a record-breaking month. It is particularly gratifying to note that while our exports are climbing up steadily, imports are falling. This means that the real basis of our business is excellent and at the same time we have learned a lesson in economy from the disturbances of the past. Railroad earnings are making a poor showing now, but this has been anticipated for a long time and is probably overdiscounted. It is thought that a marked improvement will be shown in the ratio of operating expenses to earnings from now on as the railroad corporations are getting control of their expenses, and the efficiency of labor is being greatly increased. Mercantile business is also improving. This is shown by the great number of buyers now visiting wholesale centers, such as New York and Chicago. So far as can be ascertained, purchases of goods by these buyers is on a normal scale, and, as the stock of manufactured goods is limited, we may expect this buying to result in the reopening of many mills and factories which have been temporarily closed. The iron and steel business, always considered the best barometer of general conditions, is showing decided improvement. The consensus of competent

opinion in regard to this branch of trade is that a steady increase in the volume of business may be expected from now on. In short, it appears that our business depression has been overestimated and that resumption will be more speedy than has been anticipated.

The Technical Situation.

The technical situation at present is rather peculiar. While there is a very large short interest of a weak character, the buyers of stocks make no sign of disturbing the operations of the bears. In fact, the large purchasers appear more anxious to prevent than to assist advances. In the average brokerage office nine traders out of ten are bearish. There has also been some liquidation of collateral held in loans during the week and this has had a depressing effect on prices. Taken all together, the technical situation is basicly very strong. So long as the bears are aggressive and the bulls apathetic, however, there will be no upturn. It is impossible to gauge the exact time at which a reversal of the present sagging market may be expected, but it may appear any day, and, considering the large short interest, the scarcity of floating stocks and the improving business conditions, the advance will probably be very sharp and well sustained when it comes.

Conclusion.

I think good stocks should be purchased at this level or on any further breaks and held for good profits. With the exception of Steel common, I prefer the dividend-paying rails. The effects of possible dividend reductions here and there have been already discounted in current prices, and it is highly probable that not half of the predicted reductions will ever materialize. In regard to Steel common, I have repeatedly recommended this stock of late and it is gratifying to note that it is doing better than anything on the list. A special letter giving full details of the status of this corporation will be issued February 19. In the rails I think Pennsylvania, Reading and Atchison are remarkably cheap. Union and Southern Pacific, the Hill stocks, Norfolk & Western, Chesapeake & Ohio, Baltimore & Ohio and Louisville & Nashville are also far below their values.

I think the only tenable position at present is on the long side.

February 22, 1908.

In the chart which accompanied my weekly letter of February 15 I outlined the movements of cereal production, trade balances and bank clearances as compared with the trend of stock prices. It was my original intention to show several other factors in the chart, such as cotton production, interest rates on money, etc., but it was found that a chart containing too many lines would result in optical confusion. I will there-

fore take up other salient factors one at a time and amalgamate them later on in another chart.

The question of cotton production and its bearing on our general prosperity is very important. The line showing trade balances in the letter of February 15 comprehended the returns from cotton exports, but this is a matter which will bear specific watching. The importance of this factor will be appreciated by a glance at the following table:

Exports of Four Leading Staples (in Dollars) for Ten Years.

	Breadstuffs.	Provisions and Dairy Products.	Petroleum.	Cotton.
1898	333,897,119	167,340,960	56,125,578	230,442,215
1899	273,999,699	175,508,608	56,273,168	209,564,774
1900	262,744,078	184,453,055	75,611,750	241,832,737
1901	275,594,618	196,959,637	71,112,788	313,673,443
1902	213,134,344	199,861,378	72,302,822	290,651,819
1903	221,242,285	179,839,714	67,253,533	316,180,429
1904	149,050,378	176,027,586	79,060,469	370,810,246
1905	107,732,910	169,999,685	79,793,222	379,965,014
1906	186,468,901	210,990,065	84,041,327	401,005,921
1907	183,200,000	201,000,000	83,500,000	482,060,000

These four products represent at least 50% of our total exports and cotton alone represents, roughly speaking, 50% of the four staples or 25% of our total exports. This may be illustrated by another table:

Total of Cotton, Four Leading Staples and All Exports.

	Total Cotton.	Total Four Staples.	Total All Exports
1898	230,442,215	787,805,872	1,231,482,330
1899	209,564,774	715,346,249	1,227,023,302
1900	241,832,737	764,641,620	1,394,483,082
1901	313,637,443	857,340,486	1,487,764,991
1902	290,651,819	775,950,363	1,381,719,401
1903	316,180,429	784,515,961	1,420,141,679
1904	370,810,246	774,948,679	1,460,827,271
1905	379,965,014	737,490,831	1,518,561,666
1906	401,005,921	882,506,214	1,743,864,500
1907	482,060,000	949,760,000	1,880,851,024

The movements of stock prices and cotton production since 1885 are shown in chart form below*:

The uniformity in broad movements is again illustrated in this chart. The point is that stock prices follow fundamental conditions rather than the verbal spatterwork of impressionists. Give us good crops and good business and stocks will be all right. "They cannot rail the seal from off our bond." To enter this subject further in these advices would be undue reiteration.

The cotton prospects and statistics should be carefully examined. This factor affects not only the country in general but certain Southern and Southwestern railroads in particular.

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* This chart appears on page 44 of the Book of Charts issued in connection with this volume.

So much interest centers in Union Pacific and the probable segregation of its investment holdings of stocks that I have recently made an effort to find out what they hold. In this effort I have failed. People who are in a position to offer information simply state that the present policy is one of antipublicity. I have therefore hit on the following scheme:

The annual report of Union Pacific for the fiscal year gives a list of the investment securities held on December 5, 1907. As our present market is not far from the lowest of the year, these stocks if sold could not have been disposed of at a lower average level than that which obtains at present. Therefore, we may assume experimentally that all these holdings are sold at present prices and see what the segregation would give to the stockholders in the form of a cash dividend. The properties owned, as shown by the report mentioned, would bring the following sums if sold at the closing prices on February 19:

Table Showing Investment Stocks Held by Union Pacific Railroad Company, December 5, 1907.

Shares.	Stocks.	Price.	Market Val.
87,864	Gt. Northn. Ry. Co. Pfd. Stock......	117	$10,280,088
38,645.60	Gt. Northn. Ry. Co. Pfd. Stock (installment)	115	3,478,104
77,164	Gt. Northn. Ry. Co. Ore Certificates	50	3,858,200
33,028	Northn. Pac. Ry. Co. Com. Stock...	122	4,028,440
33,416	Northn. Pac. Ry. Co. Com. Stock (installment)	104	1,453,596
7,249	Northn. Securities Stubs	100	724,900
100,000	Atch., T. & S. Fe Ry. Co. Pfd. Stk.	83	8,300,000
19,800	C., Mil. & St. P. Ry. Co. Com. Stk.	107	2,128,230
26,325	C., Mil. & St. P. Ry. Co. Com. Stk. (installment)	97	842,400
18,450	C., Mil. & St. P. Ry. Co. Pfd. Stk. (installment)	127	2,343,150
32,150	Chic. & Northwn. Ry. Co. Com. Stk.	142	5,565,300
142,857	N. Y. Cent. & H. Riv. RR. Co. Stk.	94	13,428,558
72,064	Balt. & Ohio RR. Co. Pfd. Stk.....	81	5,837,184
323,342	Balt. & Ohio RR. Co. Com. Stk....	78	25,220,676
900,000	Southern Pacific Co. Co. Stk.....	68	61,200,000
342,000	Southern Pacific Co. Pfd. Stk.....	108	36,936.000
103,431	Chic. & Alton RR. Co. Pfd. Stk....	49	5,068,119
201,231	Illinois Central Railroad Co. Stock..	124	24,952,644
19,359	Railroad Securities Co. Pfd. Stock..	100	1,935,900
34,829	Railroad Securities Co. Com. Stock.	126	4,388,454
	Total		$221,969,943
	Less Southern Pacific Common and Preferred Stock deposited as collateral under Oregon Short Line Refunding Bonds		80,440,000
	Total Unpledged Stocks		$141,529,943

There remains to be considered a question which appears to be more or less problematical and that is the participating rights of the preferred stock of Union Pacific in case of a segregation. The best posted men seem to be at sea on this subject. Of course, I cannot pretend to offer a competent opinion on a legal point of this character, so I will again experiment by producing two hypothetical cases, one contemplating a division among the common stockholders only of the sums realized from the sale of investment holdings and another contemplating a pro rata distribution to both preferred and common stockholders. Assume a holding of Union Pacific common at present approximate price of 115.

Example No. 1.

(Distribution of proceeds to common stockholders only)

Present price of stock	115
Cash dividend from sale of holdings......	52
Price of stock divested of holdings.......	63

Example No. 2.

(Distribution pro rata to preferred and common stockholders)

Present price of stock	115
Cash dividend from sale of holdings......	38
Price of stock divested of holdings.......	77

In both these calculations the conversion into common stock of $73,000,000 convertible bonds, now outstanding, has been assumed.

The latest report from July 1 to December 31, 1907, shows that Union Pacific earned in that period 11.67% on the common stock on actual earnings from operation, without considering income from other sources. Therefore, the stock, on the basis of "a dollar for dividends and a dollar for improvements" may be reasonably considered a 6% stock after it is divested of actual revenue from other sources.

The examples given above may appear pretty strong. There are a number of factors to be considered in an arbitrary segregation of this character. There is the possibility of having to dispose of these holdings at a price far below the quotations assumed, but that is purely speculative. They might sell them higher. They may have sold some of them already. There is also the contention that this division of interests would rob the parent company of advantages which it now enjoys in the way of a monopoly which kills competition. So far as the possible argument that bond issues have been made for the purpose of buying these holdings is concerned, it may be pointed out that the report issued from this office on February 15 shows actual revenue from operation sufficient to pay interest on all bonds issued, and leave a margin of safety over and above the present dividends on common and preferred.

It will be understood that the computations given are arbitrary and experimental to some extent. They form, how-

ever, a nucleus for future analysis. The matter will be pursued in these advices until we reach a definite conclusion and arrive at a basis which will eliminate some of the mystery surrounding this problem.

The General Situation.

There is very little change in the general situation, but that little is on the constructive side. There is considerable improvement in the steel and iron trade and from my personal correspondence I find a cheerful note in almost every section. I pay more attention to the letters I receive from clients in business than to the newspapers. Out of about fifty letters received from different sections this week only one writer is pessimistic. It will be understood that comparisons showing improvement are now based, not on the business of a year ago, but of a month ago. Comparisons with January or February, 1907, are distinctly odious and are in fact obsolete, for stock prices have been already reduced to cover the decadence. If we improve from now on, our stock prices will advance. Even if a dead level is assumed in the business situation for a time, stock prices should advance in many quarters, partly in anticipation of future improvement and partly because evils have in many cases been overdiscounted in current quotations.

The Technical Situation.

The technical situation is very strong. The scarcity of floating stocks (Street certificates) is more marked than for a long time. I am informed by friends engaged in business on the Consolidated Exchange that stocks, even in moderate lots, are very scarce. The Consolidated Exchange transactions reflect the facts more truthfully than those on the New York Stock Exchange, as the elements of concealment and manipulation are absent on the smaller bourse.

Whenever there is a little advance we hear the old cry "short covering," but this view is frequently adopted by the oracles who do not keep posted on basic affairs and who find this simple expression a very convenient explanation. So far as I can ascertain there has been more selling than buying by the bear element during the week. Strange as it may seem, the bears are not making any money in this market.

The technical situation favors purchasers at present.

Exports and Imports for January, 1908.

The excess of exports over imports breaks all records in both December and January. The figures are as follows:

	Jan., 1908.	Dec., 1907.	Jan., 1907.
Exports	$206,211,835	$207,179,436	$189,296,944
Imports	85,608,704	92,288,771	126,586,934
Excess of exports	$120,513,131	$114,890,665	$62,710,000

Conclusion.

I see no reason to change my recently expressed opinion that good stocks should be purchased at this level and on all reactions. The good rails offer the best opportunities with the greatest degree of safety. Pennsylvania and Atchison look particularly attractive and Steel common is much the best of the industrial group.

There is one point which should be given consideration. There are a great many people holding stocks bought a few points above current quotations and there is an apparent intention to sell out holdings on the first upturn. It is my opinion that when this market turns there will be an advance which will be more prolonged and material than is now anticipated by the most sanguine bulls. It will be poor policy to get in too much of a hurry to liquidate holdings. The advance, when it comes, may offer an excellent opportunity to "clean house," that is to say, to dispose of doubtful securities and invest in better ones, but the extent of the general recovery will almost certainly be underestimated.

February 29, 1908.

So much interest centers at present in copper stocks and their probable future that I have decided to devote a portion of this letter to a discussion of the subject. Amalgamated is, of course, the logical example of this class of corporations and is also more widely held than any other copper stock. It may, therefore, be considered fairly representative of the copper stocks. This view is, of course, subject to modification in cases where other concerns are able to produce copper at a lower cost than the Amalgamated Company can. We should remember, on the other hand, that production is bound to be restricted by the closing of numerous small mines which could make copper when the metal sold at 25 cents per pound, but which cannot make profits on 20-cent copper, and 20-cent copper seems to be a rather remote possibility.

It is practically impossible to gain much knowledge of the affairs of the Amalgamated Copper Company from any reports issued by that corporation. The figures are not illuminating. It is, in effect, a blind pool, and in order to get any light on the subject we must consult the factors which have brought about wide movements in the stock in past years. It goes without saying that the all important factor is the price secured for the metal itself. The relation between copper prices, stock prices and dividend disbursements since the organization of the Amalgamated Company in 1898 is shown in chart form below.*

It would appear that so long as we are unable to get adequate information from the bookkeepers of the corporation we

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* This chart appears on page 56 of the Book of Charts issued in connection with this volume.

would better turn our attention entirely to the metal market, on the theory that if metal prices advance stock prices will sympathize.

So far as the metal market is concerned, I will offer as my unqualified opinion that we have seen the lowest prices in this commodity and that steady improvement will occur from now on. Large sales have been made for foreign account during the last few days, and men who are competent to pass intelligent opinions state that available stocks are pretty well cleaned up. These recent sales have been larger in volume than has been reported by the financial news organs. I feel certain about this, but am not at liberty to give details, as my information is of a confidential character. Most of these transactions were consummated at prices above the posted quotations for the metal. This may appear strange, but we all know that when copper was quoted on the Metal Exchange at 25 cents a few months ago it was being sold at 20 cents. It's a poor rule that won't work both ways.

Another point which affects Amalgamated stocks favorably is the question of wages. Butte has always been considered the stronghold of union labor, but material reductions have recently been effected in that locality. The principal expense of mining is labor, and the cost of making copper in this camp is unquestionably much lower than was the case a year ago.

It is probable that no stock has a more unsavory reputation than that under discussion, but in order to give the devil his due we may reflect that the dividends have shown fairly well since the inception of the corporation. The figures are as follows:

Year.	Dividends.	Equivalent to
1899	$1,500,000	2%
1900	6,000,000	8%
1901	8,425,000	7½%
1902	3,875,000	2½%
1903	3,100,000	2%
1904	3,100,000	2%
1905	6,975,000	4½%
1906	10,850,000	7%
1907	10,850,000	7%
Total	$54,675,000	Average 5 1/16%

This table shows that in the last eight years (including the 2 per cent. paid in the last part of 1899) the Amalgamated Copper Company has earned and paid to the stockholders $54,675,000, which is equivalent for the eight years to 5 1/16 per cent. on par valuation. That is to say, the man who purchased Amalgamated at 100 in 1900 on an investment basis only, would have received 5 1/16% per annum in the form of interest. In an example of this kind we need not consider the shrinkage in principal. The stock has frequently sold above 100 in the

interim. On the basis of a five per cent. return on money the security has therefore been worth a little better than 100. Pursuing the matter, we find that, considering money worth more than 5%, the normal value of the stock has been, for the entire eight years, as follows: On six per cent. money, 82½; on seven per cent. money, 71, and on eight per cent. money, 62½. If we assume the probability of the Amalgamated Company being able to make as good a showing in future years as in the past we arrive at the conclusion that the investor in this stock at 50 is receiving over 10% on money regardless of what the present rate of dividend may be. In the rate of 5 1/16% figured above we have necessarily contemplated all reductions in the rate of disbursement and all fluctuations and stagnation in the metal market. Another point in favor of Amalgamated is the fact that no preferences stand between the stockholder and his profits. No preferred stock, no bonded indebtedness.

One great difference between a railroad stock and a mining stock is the fact that the railroad property is always growing, while the mining property is always consuming itself. In this regard it may be pointed out that we have no records of ever having exhausted a copper mine in a granite formation. According to Mr. Stevens, the Rio Tinto mines, near Madrid, have been worked since the eleventh century before Christ and this is still a great producing territory.

If it appears from the above brief digest that I am taking a bullish stand and offering particular recommendation on Amalgamated Copper, I hasten to state that this opinion is incorrect. The reason for speaking of the stock and producing the figures and diagrams above is merely one of policy. The idea is to set forth in these advices from time to time such matters as are found to be of interest to the greatest number of people. The statements and deductions offered are without color or prejudice. Personally, I believe the stock is cheap, but I am not in love with it. The industry on which the stock is founded is sound. Copper metal will take care of itself, but so far as the securities of the Amalgamated Copper Company are concerned, we must move in the dark. There is no other business on earth except speculation that a man would engage in blindly, but in some cases this form of confidence is justified. The American Sugar Company, for example, has done well by its shareholders for many years.

Summed up, the whole matter amounts to this: The copper stocks benefit by advancing prices for the metal and indications point to betterment in this commodity. As to Amalgamated specifically, it may be said that present conditions and past history warrant the security selling at higher prices. If one is willing to adopt these factors as a basis of operations and take a chance on the probity and sincerity of the moving spirits in the concern the proposition is attractive. The speculative possibilities are greater in a stock of this kind than in shares which

are open to inspection and which therefore keep within more reasonable price limits, but, of course, we sacrifice the factor of safety in inverse ratio to the possibility of "get rich quick" results.

The General Situation.

I have had a large number of letters from merchants and manufacturers in different localities this week and the news continues cheerful. The only note of complaint comes from the equipment companies. It is not difficult to understand why business is quiet in this line. With a large number of idle locomotives and freight cars their activities are confined to repair work. The improvement in this section of the manufacturing world will be very rapid when the wheels begin turning again. I adhere to the recently expressed opinion that the depression in general business has been overestimated both as to extent and duration. The only thing we need be apprehensive about is our crops. In a few weeks we will encounter the advance guards of the crop-killers. From that time on we will have weevils, green bugs, chinch bugs, smut, rust, inundations and tornadoes galore. The great problem will be to get at the approximate truth, and I think that, with the proper sources of information, this can be done. This particular point should be carefully followed. More depends on the crops than on all other factors and issues combined. With this in mind I shall devote a considerable portion of this letter to crop prospects and conditions as soon as any information of importance is available.

The Technical Situation.

The technical situation remains strong. There is some change of sentiment on the part of some of the hitherto radical bears, but these converts are not covering outstanding lines to any great extent. On every advance of a point or two there is selling by the trading element. The loaning rates at present reflect one of two things—an oversold market or great scarcity of stocks. The old cry of the bears that holdings are being liquidated and borrowed stock delivered is probably a weak invention of the enemy. In this stagnant market such measures of deception would be ineffective and foolish. It is also observed that the same scarcity of shares is evident on the Consolidated Exchange as on the Stock Exchange.

The technical situation is good, and any buying movement of importance or a bit of good news would probably result in a sharp and well sustained recovery. Specifically, the best buying observed during the week was in U. S. Steel stocks, Smelters and Amalgamated. The buying of Atchison and Pennsylvania also continues good, but is not of an aggressive character.

Conclusion.

Continue to recommend purchases of good stocks at this level or on any little setbacks. There seems to a deeprooted

and widespread idea that "there must be another smash before there is any advance." This view is held, not only by the professional bears and room traders, but by prospective investors. When the promulgators of this theory are asked "Why?" the replies are rather hazy. I do not believe this prevalent idea of another big decline will be justified by events. Of course, it is always possible that a dip of a few points can appear from any level, but so far as a material decline is concerned I think such a thing is forbidden by present conditions, both basic and technical. Stocks are very cheap now—unprecedentedly cheap—and this being the case it is foolish to risk losing good bargains through procrastination based on a piggish desire to buy at the extreme bottom. The approximate bottom may be judged by logical methods, but the man who buys at the exact bottom must do so by chance.

The high-priced dividend-paying rails offer the best opportunities, together with the greatest degree of safety, but it will not be surprising if the industrials become very active in the next upward movement. The leaders in this group would naturally be the stocks named above—Steel common, Smelters and Amalgamated.

March 7, 1908.

There appears to be a general idea that the bullishly inclined have had the worst of the bargain recently. This is an error. If anything the advantage has been with the purchasers on breaks for, while the chart produced below* shows practically no change in prices since January 1, several stocks have sold ex-dividend in the interim and this fact favors the buyer.

There is always to be considered the character of the securities invested in. While prices have not changed on the average since January 1, some stocks have advanced sharply while others declined. This may be best illustrated by a table showing the prices of leading stocks in the period consulted.

Railroads.

	Nov. 1.	Feb. 29.	Advance.	Decline.
Atchison	74	68½	..	5½
Baltimore & Ohio	80⅞	78¼	..	2⅝
Canadian Pacific	150¾	143	..	7¾
Chesapeake & Ohio	28	26¾	..	1¼
Chicago, M. & St. P.	100½	109¼	8¾	..
Chicago & Northwestern	132	141½	9½	..
Colorado & Southern	18¾	22½	3¾	..
Denver & Rio Grande	18⅞	15⅝	..	3¼
Erie common	18	12⅞	..	5⅛
Illinois Central	121	124⅝	3⅝	...

* This chart appears on page 23 of the Book of Charts issued in connection with this volume.

Railroads.

	Nov. 1.	Feb. 29.	Advance.	Decline.
Louisv. & Nashville	95	89½	..	5½
Mo., Kan. & Tex.	24¼	17¾	..	5¾
Missouri Pacific	53½	30⅞	..	22⅝
New York Central	95⅛	94	..	1⅛
Norfolk & Western	63	60¼	..	2¾
Northern Pacific	106½	120¾	14¼	..
Pennsylvania	108¼	111⅞	3⅝	..
Reading	75	94⅞	19⅞	..
Rock Island	13½	11¼	..	2¼
Southern Pacific	66¾	67⅛	⅜	..
Union Pacific	108½	111¼	2¾	..

Industrials.

	Nov. 1.	Feb. 29.	Advance.	Decline.
Amal. Copper	49⅝	50¾	1⅛	..
Amer. Car & Foundry	25½	27¼	2¾	..
Amer. Locomotive	37	32	..	5
Amer. Smelting	67⅛	59⅜	..	7¾
Amer. Sugar	100⅝	114½	13⅞	..
Anaconda	34	32⅜	..	1⅝
Col. Fuel & Iron	16½	16⅜	..	⅛
Consol. Gas	80½	99¼	18¾	..
Corn Products	10	11½	1½	..
Distillers Securities	39¾	29	..	10¾
General Electric	109	116	7	..
National Lead	37½	44	6½	..
People's Gas	73	86¼	13¼	..
Pressed Steel Car	17⅞	20	2⅛	..
Republican Iron & Steel	13	15⅜	2⅜	..
U. S. Steel common	23¾	28⅝	4⅞	..
U. S. Steel preferred	83¼	91⅞	8⅝	..

The General Situation.

The general situation continues to improve. The opening of the copper mines in the Butte district is a most encouraging factor, for it reflects a positive belief in a resumption of business in the near future. This belief is also evidenced by the pushing forward of the work on the rail mills at Gary, Indiana. These mills will have a capacity of 700,000 tons a year. The fact that the work is being rushed to completion is prima facie evidence of confidence on the part of the largest steel interests.

The small stocks of goods on hand in almost every line is shown by the continued rush of buyers to wholesale centers. This will soon result in the reopening of many mills and factories. It is not thought that this improvement will be apparent to superficial observers for some time. It is a preparation, a clearing of the decks for action.

Every legitimate indication points to an early trade revival.

The Technical Situation.

There is still a large short interest in the actives. This is true not only of New York and the West, but of London and Amsterdam. The buying is of a far better character than the selling in all localities, but the more active big professionals seem to be acting for people who do not want to see the market advance as yet. It is impossible to determine just when the lines will be completed and the manipulation reversed to favor prices, but it is my opinion that the time is not far off. The technical position is strong.

Crop Prospects.

Information relative to winter wheat indicates a general favorable condition, although some injury is reported in early-sown wheat. From a number of States reports of promising conditions are received.

The first government crop report of the year on cereals will be issued March 10. This will be made the subject of a special letter.

Trade Balances and Bank Clearings.

Figures of imports and exports for January were given in my letter of February 22. Government returns for February should be made public about March 15. Bank clearings for the entire United States for the months of January and February of the present year compare with the corresponding months of last year as follows:

	1908	1907	Decrease.
January	$11,359,308,232	$15,054,655,406	24.5%
February	8,756,701,857	11,823,958,740	25.9%

Conclusion.

I adhere to my belief that the next important movement in stocks will be to a higher level. It is possible that the dullness may continue for a time yet or even that a sharp dip may occur before the upward movement begins. I do not think any such dip will occur and if it does it will be limited to a few specific stocks. In the railroad group Pennsylvania, Union Pacific, Atchison, Reading and the Hill stocks look most attractive, and Steel Common is easily the cheapest of the industrials.

Of course, so long as the dullness continues the only way we can make even moderate returns is by trading right. Even with a distinct showing in favor of purchasers since November 1 very few people have made money. Reverting to the chart it will be seen that the extreme possibility for purchasers was 9 points (56 to 65), while the extreme possibility for the seller was 5½ points (65 to 59½). Of course, no one could be expected to buy at the bottom and sell at the top, but several good turns could have been made by traders who employ reasonable methods.

The week in the stock market has been a good one, with no sensational movements in any quarter. The activity has, of course, shown a marked contrast to the excessive dullness of recent weeks, but in reality the action has not been excessive and would excite little comment in normal times.

The principal stimulus to stock prices has been an improved showing in general business, or more correctly, a recognition of such improvement. The facts have been apparent for some time to those who took the trouble to scratch a little way below the surface. There has also been a change in that mysterious thing called public sentiment. This change is not, however, of a universal character. There are still a large number of traders and writers who refuse to even modify their position on the destructive side. Some of these individuals adhere to their views through sincere convictions, others through stubbornness, and still others—a very large class—because they are committed to the short side of the stock market and cannot or will not abandon their position.

In addition to the better showing in general business, there is reason to believe that the railroads are to be given more latitude in the matter of freight rates. This is a most important factor. It is certain that rehabilitation of some kind is necessary to the well-being of the railroads. Prices of every commodity, including labor, have steadily risen for years, but while freight rates have advanced somewhat, the advance has not been at all in proportion to the increased cost of conducting transportation. So long as railroad rates were "regulated" rigorously by state legislators, who did not understand, and prejudiced politicians, who did not wish to understand, it looked as if the only possible solution of the problem lay in a wholesale retrenchment, the brunt of which must fall on labor. This would mean a struggle between labor and capital more or less bitter and prolonged. It is certain, however, that if the administration takes the initiative in extending reasonable rights to railroad corporations in the matter of tariffs, the wage problem will require far less readjustment than would otherwise be the case. These corporations seek nothing but an arrangement which will permit of fair returns on invested capital or the profits which belong by rights to every pioneer in the industrial world. Such an adjustment is inevitable, no matter by what means it may be effected. We should not overlook the fact that already a great reduction has been made in wages, not by means of scaling down of rates, but by the increased efficiency which is always apparent when there is a chance to choose the best laborers. Every man who has employed even a dozen workmen knows how vastly important good service is. I do not hesitate to estimate that first-class workmen, desirous

of retaining their positions, contrasted with an indiscriminate lot of men who know their services are essential, represent a saving of 25%.

Gradually but surely the railroads are getting into shape where the ratio of operating expenses to gross earnings will fall even as gross rises. It is sheer idiocy to assume that anything could possibly occur which would rob our railroads of fair returns on capital and throw the whole country in chaos. Some railroad managers have sinned, it is true, but they have paid for it.

It is my opinion that we will see steady and material improvement in railroad earnings from now on.

There is always a bogey man of one kind or another stalking about Wall Street. Just at present the Hepburn bill and other schemes for the eternal overthrow of the Stock Exchange are parading about in fearsome forms. It is my opinion that this talk and action are worthy of little consideration. In fact, the matter sifted to a logical conclusion becomes wholly unimportant, not to say ridiculous. After every panic we have had such agitation, and it has come to naught. In the present case there is no hope of definite action until after the elections, and I have a pretty strong idea that it will be dropped once that contest is decided. The fact that an investigation has been ordered made "by the same man who investigated Standard Oil" was mouthed about by the bears this week. The inference seemed to be that if Standard Oil was guilty the Stock Exchange must be guilty. The absurdity of such reasoning needs no exposure. It is tantamount to saying that if a certain judge convicts a man of murder, the next man placed on trial before him must also be guilty of murder. In point of fact the Stock Exchange can well afford to court investigation, for the methods are absolutely clean and cannot be successfully attacked. Every share of stock bought or sold is delivered and paid for and whenever we get laws which can prevent you or me from going to the Stock Exchange, purchasing securities, paying a portion down and borrowing the balance with our security as collateral, we must also have corresponding laws which prevent you or me going to Brooklyn, buying a piece of realty, paying a portion down and borrowing the balance with the property as collateral. We must either do this or enter upon a regime of class legislation of the most virulent and mischievous type. We may be "speculating" when we buy the stocks, also we may be speculating when we buy the realty.

I do not mean to say that unscrupulous individuals have not made use of the machinery of the Stock Exchange to further nefarious schemes. Even the church is made the instrument of selfishness and criminality at times, but I do not think legislation will be offered to close the churches—still, it's hard to tell.

It may be pointed out finally that the prices of member-

ships on the Stock Exchange have not shriveled away in anticipation of the overthrow of the bourse; on the other hand, they are in a healthy state. These prices are made by the shrewdest men in Wall Street, and may be considered a reflection of their views on the matter.

The investigation may poke along for a time, but the Stock Exchange will be cheerfully doing business a hundred years from now, just as will the London Stock Exchange and the Paris Bourse.

But to leave this unprofitable discussion and enter upon a more vital subject. It is always the case that when an advance starts and before it has progressed materially the holders of stocks begin to squirm around on their seats and wonder if "a reaction isn't due" or "if it isn't going too fast," etc. The very human desire to get out at the top begins working and the charts and other oracles are consulted feverishly. In the present instance the tendency to curtail profits is already apparent. It may be definitely stated that there is absolutely no guide as to the intermediate fluctuations of a point or two in an advancing market. In the taking of profits and replacing of trades from day to day each man must be his own fortune teller. It is sufficient to know that the trend is upward and that purchases on every decline will put the buyer into good company with every prospect of ultimate success. There will be distribution bv good people at times, more to check too rapid advances than for any other reason, but the stocks so distributed will be quickly replaced on small declines.

So much for the intermediate changes. There will come a time, of course, when the speculator will be warranted in "cleaning up" and awaiting a good break, say five points or more. The time might come in a week or in a month. The best way to determine it will be by close attention to the technical situation. There are no signs of such a condition as yet. A good many people magnify the extent of the present upturn. It would, in my opinion, be ridiculous to assume that all the accumulation of stocks and the very pretty manipulative work for depressing prices which has been going on for three months past, had for its object the engineering of a five or a six-point average advance. There is more than this in the matter, and above all things, fundamental factors warrant higher prices.

I will be excused for calling attention to the fact that the main points on which this rise is based, such as an improvement in general business, the technical situation, etc., were accurately pointed out in these advices a month ago. This statement is not offered in a spirit of "I told you so," but rather to impress upon readers the importance of looking at basic facts and ignoring mere opinions or rumors. Not more than ten days ago the atmosphere was so blue in Wall Street that a bull was hard to find. The surface talk was bad, but the basic facts were good. They will be still better.

The General Situation.

The gradual improvement in the general situation continues and has been recognized in considerable detail by the newspapers and trade journals during the week. There is, however, more genuine advancement than appears upon the surface. The comprehensive nature of the upbuilding is the most favorable sign. Every line of business seems to be picking up and this is particularly apparent in steel and iron and, to a more modified degree, in copper. It is my opinion that we may now take it for granted that the corner has positively been turned in general business and concern ourselves only with the extent and rapidity of the recovery.

The full figures for February exports and imports are not yet available, but will be given in next week's letter.

The Technical Situation.

I do not think the technical situation has been much weakened by the advance of this week. There has been some short covering but there has also been considerable short selling whenever the market has turned weak for a few hours. There is a large and stubborn outstanding short interest which will be forced in only at materially higher prices. The weak long interest does not increase rapidly, as there is a general tendency to take profits on the bulges, and this prevents building up of extended lines on small margins and keeps the market in pretty clean shape. Later on and at higher prices we may look for too much enthusiasm and its remedy—a shake-out—but so far the technical situation is healthy and strong.

Crop Conditions.

It is too early to offer anything definite on crop conditions, but the rattle of small musketry is beginning to be heard. There is some complaint of cold weather in the West and talk of insects in the Southwest. The Modern Miller's report of weather conditions is favorable, however, and the belief is expressed by competent people that a very large acreage will be planted this year in both wheat and corn. Each week now will give us a more definite line on this most important factor.

Conclusion.

It is my opinion that we are just entering a period where the greatest opportunities of a decade are offered to the speculator or investor who uses discrimination in his purchases, exercises patience as to the final outcome and at the same time keeps a wary eye on the progress of business and the crops. The crops particularly should receive careful attention. A severe failure in this quarter might upset all our calculations and warrant a negative attitude or even a reversal of position on certain stocks. There is no reason to anticipate poor crops, neither do we require bumper crops in order to see our expectations fulfilled. Normal crops are good crops. As has been

stated, it is as yet too early to do more than prepare to make trustworthy examinations, but the time is rapidly drawing near when definite and illuminating news may be gathered. It will be necessary to sift this news out of a mass of hot air and eliminate the reports of alleged "crop experts," who examine growing crops from the windows of sleeping cars, and the opinions of roll-top desk farmers, who talk according to their interests. Every precaution will be taken to gain such information as is dependable and lay it before the readers of these advices. Everything else is promising now, but we must keep an eye on the crops.

I think the best thing to do at present is to get some good stocks and keep them for a while. There will be set-backs from day to day, but those who pretend to guess them are merely talking. No rule has ever yet been found for gauging minor movements, which are based entirely on the operations of individuals who do not themselves know what they will do before the day is over. In fact, any attempt to make a game of chance out of the market and then apply a law to a game of chance is a preposterous paradox. Of course, if the trader wants to accept fair profits and take a chance of recovering his stocks lower, he won't lose any money taking profits. But it has been my experience that there is more satisfaction and more money in a ten-point profit than in raw-hiding around for five two-point profits. However, that is a matter for individual determination.

I continue to hear good reports on United States Steel common. The stock has done very well, but there has been a plain desire to keep it in reasonable bounds for the present. The occasional selling which appears on bulges is almost invariably attributed to "profit-taking." I can state pretty authoritatively that it is nothing of the sort. It is good selling, but of a semi-manipulative character, having as its object the control of movements. Later on I expect to see this stock reach much higher figures.

We may expect from time to time to have a bit of bad news, as there are still some dividend reductions possible, and the bears will seize eagerly on anything unfavorable. These things, however, will be surprisingly impotent for the present and need cause no alarm. Every flurry brought on by such items will be followed by rapid recovery.

Continue to recommend purchases of good stock at this level and on all little dips.

March 21, 1908.

There has been a great deal of discussion this week in regard to possible and probable dividend reductions. The New York Central affair, while it had been generally anticipated, started a batch of rumors and, before the day was over, the

bears had reduced or eliminated all dividends of all corporations in the United States.

There are two common errors in regard to dividend reductions. The first is the apprehension created by a reduction in a certain quarter. The number of curtailments is always overestimated. Taking the very bad period between 1893 and 1895 there were only sixteen reductions on railroad stocks and to offset these there were eleven increases. The roads which reduced dividends in the period named were: Canada Southern, Canadian Pacific, Jersey Central, Chicago, Burlington & Quincy, St. Paul, Rock Island; C., H. & D., D. & R. G., Long Island, L. & N., Michigan Central, New York Central, New York, New Haven & Hartford, Terre Haute & Indianapolis, Lehigh Coal & Navigation and Lehigh Valley. Most of these reductions occurred in 1895 and were due as much to the loss of credit because of silver agitation as to the crisis of 1893.

In the depression of 1903-4-5 only ten dividend reductions occurred on railroad stocks and there were 39 increases which brought total disbursements up from $197,000,000 in 1903 to $222,000,000 in 1904 and $238,000,000 in 1905.

The second error referred to is the belief that dividend reductions mean lower prices for stocks. I have examined every period of depression for fifty years and find absolutely no reason for this idea. In fact, it is refuted by statistics. Lowest prices of stocks have been established before and not after the reductions. Take the years 1893 to 1895 as an example:

Total Dividends and Average Stock Prices, 1893, 1894 and 1895.

		Price of Rails		
	Total Dividends.	High.	Low.	Average.
1893	$100,929,885	66	45	55½
1894	95,515,226	58	50	54
1895	85,287,453	64	49	56

It will be observed that the low prices were made in 1893, before any dividend reductions occurred, that the average prices of 1894 were only a trifle below those of 1893 and that the average prices of 1895 were the highest of the three years, although dividend disbursements had fallen over 15% between 1893 and 1895.

It is interesting to examine the affairs of 1903-4-5 in the same form as that given above:

Total Dividends and Average Stock Prices, 1903, 1904 and 1905.

		Price of Rails		
	Total Dividends.	High.	Low.	Average.
1903	$196,728,176	122	88	105
1904	221,941,049	120	93	106½
1905	237,964,482	138	114	126

I do not think either 1893 or 1903 can be accepted as a fair analogy with 1907. We are worse off than we were in

1903 and better off than in 1893. If there is any choice the comparison with 1903 is the most reasonable. We are not now facing certain crop failures or silver agitation—two very serious factors in 1893.

Another interesting point is the percentage of decline and recovery in past years. This is more important than mere "points." The figures show as follows:

Table Showing Percentages of Declines and Recovery in Panic Years 1893, 1903, 1907.

1893	Declined from	71 to 45	36.71%
	Recovered from	45 to 57	16.90%
1903	Declined from	122 to 88	27.87%
	Recovered from	88 to 101	10.65%
1907	Declined from	132 to 81	38.63%
	Recovered from	81 to *91	7.57%

* To March 18, 1908.

Above prices are compiled from the Wall Street Journal's table of daily averages for twenty railroad stocks. The percentage of recovery is the percentage of decline regained before any set-back of more than a point or two occurred.

In my opinion a recovery equal to or exceeding that of 1893 is warranted. As has been stated, basic conditions are better than in 1893 and while our percentage of decline in 1907 was a little more extended than in 1903, the percentage of recovery is smaller than in either of the former years.

In the above calculation it is not my intention to offer any mechanical basis for stock movements. The mere fact that certain recoveries occurred in past years is not a guarantee of a repetition unless fundamental factors are equal. During the last month we have heard so much about our rally "going too fast," etc., that I produce the figures to show that, so far as precedent goes, we have not as yet made a normal recovery.

A number of clients have asked for charted movements of stocks for the year 1907 based on my own figures. I therefore offer this chart below.* The figures are somewhat lower than those of the Wall Street Journal, as I include a larger number of stocks in my barometer. The present position of prices on the chart may be determined by consulting the figures for 41 rails and industrials at the end of this letter.

The General Situation.

There is a steady and healthful improvement in almost every branch of business. Out of about 100 letters received from correspondents in different sections not one complained of further depression. As surprising as it may appear, a number

* This chart appears on page 22 of the Book of Charts issued in connection with this volume.

of business men in the West state emphatically that their present business is as good as in the corresponding period of 1907. The larger steel and iron corporations are running at a little better than 50% of normal capacity, but this is an improvement over January and February, and the betterment is going steadily forward.

One of the cheering items of the week is the order given by the New York Central to the American Locomotive Company for 143 locomotives. I pointed out in a recent letter the fact that no improvement would be shown in the business of equipment companies until managers of railroads felt justified in preparing for a renewal of business. I understand that several other equipment orders will be placed in a short time.

The political aspect, so far as the attitude of the administration toward capital is concerned, shows a decided improvement. I am reliably informed that no further upheavals need be anticipated. The Hepburn bill is a dead issue, but that was a foregone conclusion.

While railroad earnings do not show favorably for February or the first week of March, it is my opinion that steady improvement will occur from now on. The ratio of operating expenses to gross will fall and this will of course be reflected in net. It is pretty certain that the great and sudden increase in ratio of operating expenses in recent months was helped along by bookkeeping. Items which really belonged in maintenance were crowded into operating expenses. This, it is unnecessary to state, was a matter of stock jobbing and political "object lessons." The items of maintenance and operating expense are so flexible that they can easily be juggled. Of course, this mere transposition of figures does no real harm, but the great jumps in the cost of conducting transportation frighten people who do not get at the heart of a railroad report.

The Technical Situation.

A careful examination of the accounts of a number of houses catering to a diversified public trade shows some change of sentiment. The short selling by this class is not so extensive as heretofore. Accounts in most cases show more commitments for the advance than for the fall. There is, however, a resting short interest of large proportions which will be covered only on a very marked advance. In spite of the increase of day to day long commitments, I do not think the technical situation is much weakened, as a great many of these trades are closed on little recoveries and some short selling also occurs on such advances.

Probably every observer has noted that whenever a little advance occurs the solons of the newspapers attribute it to "short covering." This thing is carried to a point where it grows laughable. It is an absolute certainty that stock prices in their long swings have accurately anticipated improvement or

retrogression in general conditions, but to hear these gentlemen discourse it would appear that "short covering" was the only stimulus a market ever received. A year ago the early declines were invariably attributed to "profit taking." I am afraid a good many people who do not take the necessary steps to examine actual factors find this stereotyped "short covering" a convenient and plausible cloak for their lack of information. The recent advance has been occasioned by the fact that prices have fallen below values and that the makers of prices expect improvement in general business and are anticipating such improvement in stock purchases.

Crop Conditions.

Since my special letter of March 18 the following reports have been received on wheat:

Dallas, Texas—Acreage about 25% less than last year, but yield excellent. No green bugs.

From Crop Expert Snow: Wheat in Southern Kansas above average promise. Traces of Hessian fly, but will take six weeks to determine if serious. Central part of State, prospects about normal. Southwest as a whole has prospect for more than an average crop.

Price Current: Wheat making a good showing to an extent slightly exceeding expectations.

The reports as a whole are satisfactory. There is some conflict of opinion, but the consensus of expressions of the best authorities reflect little damage and prospects above normal.

I am making arrangements for reliable correspondents in the West, and these advices, taken in conjunction with the opinions of experts who have been proved reliable in past years, should give us a pretty fair line on this important factor from now on.

Exports and Imports for February, 1908.

	Feb., 1908.	Jan., 1908.	Feb., 1907.
Exports	$167,867,762	$206,211,835	$159,548,646
Imports	79,124,401	85,608,734	123,185,209
Excess of exports	$88,743,361	$120,513,831	$36,363,437

This again breaks all records for excess of exports in the month of February.

Conclusion.

The market is acting all right and everything points to higher prices. I see no reason to change or modify my recent advice to buy good stocks. The character of the buying is excellent, prices are very low and we are on the eve of a good recovery in general business. This recovery will be anticipated in good stocks.

Continue to recommend purchases of good stocks at this level and on every little dip.

March 28, 1908.

The week has been an excellent one so far as good news is concerned and there has been a fair response in stock prices. It has been frequently pointed out that news is either all good or all bad in certain periods. Recently we have heard in the course of a few days of a number of court decisions which assure us that capital has its rights and that when the corporations suffer hardships by the acts of legislators who do not know what they are doing or that when such corporations are threatened by local laws which are confiscatory, they have only to appeal to the highest tribunals of the land in order to conserve their constitutional rights. The prejudice of unreasoning people or the inspired writings of demagogues will not endure the test in the Supreme Court of the United States. The importance of this development should not be underestimated. It means that where the railroads are wrong, the evils will be expunged and that where they are imposed upon they will be protected, all of which must redound to the ultimate benefit of the stockholders and the community at large.

Other cheering factors are the numerous evidences of improvement in general business; the signs of relatively better net earnings through a drop in the ratio of operating expenses; our favorable crop prospects and the modified utterances of our chief executive. We may add to these factors the dissipation of the Japanese war cloud and the ease in money, and the horizon appears pretty clear.

Looking at the other side of the matter, the most potent bear argument is the decline in gross earnings of railroad and industrial corporations. This is a genuine bear factor and it would be important if it were not for the fact that its exponents fail to point out that stock prices have already anticipated the shrinkages. The question of the falling off in earnings is now a *known* element. It cannot, therefore, be *speculative.* The problem of future stock prices hinges, not on the earnings of March, April or May, but upon the prospects of the long future. The methods of comparison are also misleading. Earnings are now being compared with a banner year, and if the falling off has been discounted in stock prices there is no good reason to believe that a future recovery of 50% of the loss in earnings should not result in a corresponding recovery in stock prices. And the advance in stock prices will occur before the improvement in earnings unless all precedents are shattered.

There are now, as always, two divisions of the speculative question to be solved: The main question of ultimate results and the less vital question of intermediate movements. Personally, I have settled the first part of the matter to my own satisfaction. I am satisfied that the general trend of the market will be to a higher level and that this tendency will endure for a long time. This opinion is, of course, subject to change or modification in the event

of crop disasters or other accidents. The reasons on which this view is based have already been given in these advices.

The question of reactions is a more perplexing one and it is necessary to enter more or less into the realms of guesswork when we try to determine such movements. In attempting to approximate the top as closely as possible there is a human tendency to resort to the *purely mechanical.* In our perplexity we revert instantly to the past and sometimes force ourselves to adopt inadequate guides. It is shown by history that we can place absolutely no dependence on mere records of former recoveries or reactions. The extent of these movements both as to the range in points and the duration in days is so diversified as to make every rule or symbol empirical. In the bull market which began in April, 1897, and culminated just two years later there were five reactions during the forty-point rise and these reactions ranged all the way from three points to ten points and the time covered by the reactions ranged from seven days to seventy days. In the bull market which began October 1, 1901, and culminated eleven months later there were five reactions during the 38-point advance. One of these reactions was only two or three points, another fourteen points, but the fourteen-point reactions lasted only nine days, while the two-point reaction lasted nineteen days. In the bull market which started early in the year 1904 and lasted two years, the seven reactions which occurred during a fifty-point advance were more uniform, but even here too much variation was shown to permit of establishing any average which might be considered valuable.

The figures showing the reactions in detail in the three periods named are reproduced below:

Reactions in Bull Market of 1897-1899.

(Total advance in Rails 38.92 points; Industrials 38.79 points.)

Date of Reaction.	Extent in Industrials Points.	Extent in Rails Points.	Duration Days.
Sept. 10 to Nov. 8, 1897	10.17	9.78	59
Jan. 7 to Mar. 25, 1898.	8.67	10.43	78
June 10 to June 16, 1898	2.84	2.93	7
Aug. 26 to Oct. 19, 1898	9.41	4.41	54
Jan. 30 to Feb. 7, 1899......	3.07	3.38	8

Reactions in Bull Market of 1901.

(Total advance in Rails 37.92 points; Industrials 20.87 points.)

Date of Reaction.	Extent in Industrials Points.	Extent in Rails Points.	Duration Days.
Nov. 20 to Dec. 8, 1900......	5.09	1.67	19
Dec. 27, 1900, to Jan. 19, 1901.	6.29	4.39	24
May 1 to May 9	7.55	14.49	9
June 17 to July 15	8.80	11.30	29
July 29 to Aug. 6	3.89	6.64	9

Reactions in Bull Market of 1904-5.

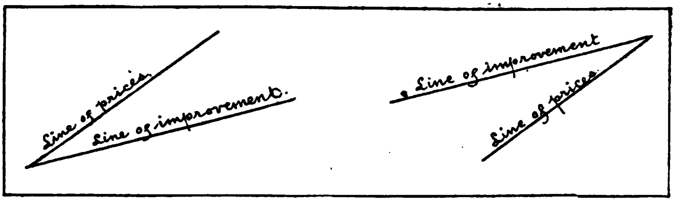
(Total advance in Rails 49.56 points; Industrials 55.93 points.)

Date of Reaction.	Extent in Industrials Points.	Extent in Rails Points.	Duration Days.
Jan. 27 to Feb. 24, 1904.	3.79	4.17	29
April 7 to May 18.	2.55	4.03	42
Dec. 5 to Dec. 12	7.46	5.93	8
April 14, 1905, to May 8, 1905	9.23	9.81	25
May 12 to May 22	6.68	5.50	11
Aug. 23 to Sept. 7	4.22	4.82	16
Nov. 1 to Nov. 13	3.31	4.74	13

We may be justified in assuming that a reaction of ten points seldom occurs in a bull market. The drop of 14.49 in 1901 was artificial, being occasioned by the Northern Pacific corner.

In consulting the figures given above confusion is liable to arise unless the term "reaction" is considered in its true sense. A reaction is a mere temporary reversal in an upward movement as a rally is a temporary recovery in a bear market. If we get to calling our present movement a rally we are working on a false basis. Take, for example, the years 1904-5. The *movement* was upward for fifty points. I call attention to this fact, as a great many people are now figuring that the market has advanced sufficiently, but not so. If an upward movement of importance is to occur we have plenty of room at the top. A full appreciation of the long trend will give the purchaser confidence in his position, for even if he misses or misjudges the *reactions* he will soon be shown profits again. Thus in the bull markets of 1904-5 there was never a time in the two years when the purchaser was endangered provided he operated with reasonable intelligence.

The question of undue rapidity of advance is interesting. Here again we have two points of view. If we assume a gradual improvement in general business, public confidence and the other factors which go to make stock prices, we may also assume that the stock market will anticipate such improvement in a fairly equable manner. That this has been the case in the past has been demonstrated beyond cavil in the chart issued with these advices February 15. But it is also certain that merely *temporary* fluctuations cause frequent divergence of the line of prices and the line of conditions. If we assume that prices were in line with values at the beginning of a movement and prices advance more rapidly than would appear warranted by the improvement in conditions we may expect a sharp reversal which will reconcile the two, *but* if prices at the inception of the improvement were materially below values we have a different case. Let me illtsurate this by a simple diagram.



In the present instance it is my opinion that prices were depressed until they fell far below the line of values.

Another thing which should be considered at present is the relative movement of the two important groups—Rails and Industrials. Since February 29 the movement has been as follows:

	Average Price Feb. 29	Average Price March 24.	Advance in Points.	Advance.
Rails..	68.26	74.68	6.42	9.40%
Industrials ..	50.63	58.17	7.54	14.88%

The percentage of advance in Industrials is 58% greater than in Rails.

It will be seen at once that the difference of price level in the two groups renders percentages the only correct basis of computation. My advice to switch from Industrials to Rails for the present was not inspired by the above calculations. During the last two or three days I have observed some distribution of Industrials by good people and found that these same operators were buying whenever the market was soft. In addition to this technical information there are evidences that the good news which has recently appeared favoring the *railroads* has induced many active public operators to buy *industrials* merely because they look upon the "market" as an entity and were attracted by the activity in that group. This is not a theory, but has been shown by an examination of brokers' books.

The General Situation.

There is steady but quiet improvement in the general business situation. Traffic is increasing in many sections and wholesalers report satisfactory business. In the Pittsburg district some of the lines show increases in movements of freight of 20%. The Pittsburg and Middle divisions of the Pennsylvania Railroad show a very heavy improvement as compared with the last three months. H. S. Black, president of the U. S. Realty Co., who has recently returned from the West, states that everywhere he found signs of gradual restoration and even goes so far as to say that more construction work is projected in the West than a year ago. Competent opinion is almost unanimous in its expression of belief in steady betterment in business conditions.

Crop Conditions.

There is nothing discouraging in the crop news this week, but there is reason to look for an inspired crop scare before long. This is an annual occurrence and will be nothing surprising. The question of crops is now more vital than any other point, and beginning April 2 I will add to this service a weekly summary of crop conditions gathered from the most dependable sources. This letter will be in addition to the established special letters.

There is some complaint of lack of rain in Kansas, Nebraska and the Southwest, but no damage as yet. Mr. Geo. M. Le Count, the crop expert, telegraphs from Enid, Oklahoma, that he has looked over the wheat fields in the district and found bugs in all of them, but not in sufficient numbers to do damage. He states that the wheat plant is strong and healthy and making splendid growth. Mr. Hout has traveled through Southern Kansas and also found bugs in all the fields, but could not see that they had done any damage. Mr. Hout says the wheat acreage will be less than last year, but that oats acreage will be much larger. Sydney C. Love & Co. wire from Chicago that they do not look for 10% damage in winter wheat. The *Price Current* says: "Wheat generally satisfactory. Oats showing progress. Weather favorable." The greatest bear cry this week has been "dry weather in the Southwest," but practical experts state that dry weather in that locality in March following an exceptionally wet February, is not a serious crop condition.

On the whole, indications so far are for a normal or better than normal crop.

The Technical Situation.

The technical situation is not so good at the close of the week, but there are evidences that the exponents of higher prices who are active in the trade are willing to see a moderate reaction and even help it along on the theory that such a movement will quickly create an increased short interest. The comparative position of the industrials is not technically so strong as the rails. There has been more highly speculative buying in the group first named than in the rails. I do not think bear manipulation, even if it is seconded by the bull manipulators, would result in an average decline of five points, probably not more than two or three.

Conclusion.

It is my opinion that the best results may now be accomplished by switching from industrial stocks to rails in cases where commitments are one-sided or mixed in character. I do not mean to suggest that industrials are too high—they will eventually go much higher, but the factor of safety, as well as the opportunities, appear better in the railroad group for the present. In my opinion, the best way to operate for this readjustment will be to liquidate industrials on hard spots and pick up good rails on sharp breaks. There is some stock offering just above the current quotations in both groups and

this acts as a temporary check on further advances. According to dependable information these offerings are found in Union Pacific around 129; Southern Pacific 77; Atchison 75; Great Northern 125; St. Paul 120, and Pennsylvania 118. If these offerings are absorbed the market will probably go considerably higher and this absorption may be considered as accomplished if prices advance a point or two beyond the levels named.

In the rails I think Pennsylvania, Reading, Atchison and Union Pacific are very cheap. I like U. S. Steel best in the industrials. The only thing that can happen to injure this stock is tariff legislation, and their present condition, with the practical monopoly of ore lands, will go a long way to offset such troubles. The question of tariff revision and its effect on different stocks will be discussed in a special letter next week.

April 4, 1908.

There is a great deal of indecision at present as to just how the various factors bearing on stock prices should be judged, both as to their relative importance and direct effect.

The following analysis has just been offered in a New York publication and as it is comprehensive in scope and represents fairly the ordinary view of the influence of different factors, it is reproduced below. It is not my intention to enter into any hostile criticism in expressing the personal opinions which follow the matter. Such an exhibit is bound to be debatable and the discussion should be a profitable one. The analysis appears below:

An Analysis of Economic Conditions and Factors and Their Influence on Prices of Securities.

Favorable.

Gold production enormous. Circulating medium—largest in our history. Immigration very large.	These are the great factors that make for higher prices in the long run.
Exports and imports show big balance due us from foreign countries.	The favorable balances of the past few months have never before been equaled.
Rebating by railroads—stopped. Passes on railroads almost entirely suspended.	These are bound to have a good effect on railroad earnings.

Failures in the past few months show much larger percentage of assets to liabilities than in 1893 and 1894.

No large amount of overproduction as in previous panics.

Our gold standard not threatened as in 1893.

In 1893 and 1894 farm mortgages were being foreclosed by the score; to-day our farmers and planters are rich.

Gold reserve in the U. S. Treasury so large it is not likely to be depleted.

Never in our history, during panic periods, have these conditions been so strong as they are to-day.

Money cheap and likely to be so for some time to come.

The position of banks throughout the country now better; instead of showing an excess of loans, show deposits greater than

These conditions favor railroad and industrial companies issuing more securities and on favorable terms.

Summary.

This is the greatest array of strong conditions ever existing in this country after a panic such as we have passed through, and the fact that our country is still young makes the outlook for the great long run a very promising one.

Unfavorable.

High cost of living.

Wages—high.

Our continued depression is bringing about a correct readjustment of these conditions.

Country's clearings—small.

Iron and steel business—very dull.

Failures—enormous.

Trade in foreign countries—poor.

These are conditions that have existed for a considerable period and will continue a while longer.

Legislation unfavorable to railroads.

On the eve of a Presidential election.

Tariff revision strongly advocated.

Socialism or Radicalism gaining.

Japanese question still alive.

Endorsement of the President's policies by nearly all Presidential nominees.

These disturbing factors have been present for a long time and are likely to continue for some time yet before an amicable settlement of these various points is reached.

Railroads showing decrease in net earnings.	
Heavy fines for rebating against railroads.	The latter condition here makes for permanently lower prices for railroad securities.
Labor unions in almost complete control of transportation lines insisting on regular pay until dividends are cut.	
Exposure of rottenness in high finance.	This alone justifies the radical attitude of our lawmakers and brings our securities into disrepute throughout the whole world.
Number of stockholders in corporations very large.	At no period in our history have the manipulators of the market ever permitted a large number to win.

Summary.

It would appear from the above that we still have a great deal to contend with, that most of these unfavorable elements have yet to run their course and will in all probability be with us for some months at least, resulting in a few more receiverships for railroads that have been the prey of shortsighted and mercenary management.

The writer of the article gives his conclusion as follows:

Conclusion.

"Although our favorable factors make a very strong showing, still I advise investors to refrain from buying on the present rise in the market, but be prepared to buy on big declines or during any moderate market shock that may occur late this spring or early summer, as two very important matters reach their stage of definiteness at about this time, first the nominations of both parties for President and the other the crop reports on which the ultimate yield can be calculated to a small degree of certainty at least. Besides this, it is very probable that some dividend rates will be reduced and quite possible that a few more receiverships will be announced. All of these factors will be watched closely by the big financiers, and until these are more definitely known to them they will not take securities in hand for any extended upward run."

My object in reproducing this matter is two-fold. The comprehensive nature of the items renders the matter interesting, and there is also room for discussion as to the correct designation of these factors under the respective captions.

Beginning with the factors marked "Favorable," I should personally question the first item, "Gold Production—enormous." The

effects of increasing gold production are too varied to permit of such an indiscriminate statement. The first and most potent effect of increasing gold production is to advance the prices of all commodities, including labor, and in order to gain a clear idea as to the effect on security prices, securities must be classified. Advancing commodity prices may mean disaster to securities having a *fixed* rate of income. On the other hand, corporations owning their own bases of supply—ore lands, timber lands, etc., are greatly benefited. How is it possible to group these issues under the one head "Securities" and make a versatile factor common to all?

The third item, "'Immigration—very large," is debatable. The *character* of the immigration must be considered. We can easily conceive of "Emigration—very large" being more favorable under certain circumstances.

The last item, "Deposits greater than loans," is also debatable. A condition of this kind might spell stagnation. In 1894, following the panic of 1893, loans fell to 80% of deposits, and specie to loans rose to 30%.

But the unfavorable factors are more important than the favorable ones at present. The first item, "High cost of living and wages high," is rather upset by the accompanying comment, "Our continued depression is bringing about a readjustment of these conditions." There is, then, something favorable in the depression.

The four next items referring to clearings; iron and steel; failures, and trade in foreign countries, are certainly unfavorable, but they are improving and that fact has everything to do with future security prices, but of this more hereafter.

The legislation unfavorable to railroads has about been worked out as a bear factor, and in truth there have been several instances recently of legislation *favorable* to railroads.

The question of the effects of a presidential election has already been covered in these advices. There is nothing in statistical history to prove that declines occur prior to presidential contests. Prior to the last ten elections stocks advanced in four instances and declined in six. Leaving out the 1896 contest, when silver and the menace to our standard of value was a vital issue, the effects are about equally divided.

In regard to tariff revision it may be pointed out that in the analysis the favorable and unfavorable factors are again too indiscriminately assembled. Tariff revision, whatever its evil effects may be on the shares of industrial corporations, is a bullish factor so far as railroad stocks are concerned.

Several of the other items classified as "unfavorable" are open to question as to the veracity of the statements themselves. Thus, "Japanese question still alive" and "Labor unions in almost complete control of transportation lines" may be combated.

The averment that "Exposure of rottenness in high finance" is an unfavorable economic factor is rather surprising. The exposure

of rottenness in any place, high or low, is a good economic factor. The phraseology of this sentence is unfortunate. What the writer probably meant to convey was that unjust allegations of rottenness had harmed certain good securities. Literal "exposure of rottenness" may bring the *rotten* securities into disrepute, which is as it should be, and by the same token such exposition favors the really good securities. It is the survival of the fittest.

The last asseveration, that the number of corporation stockholders is very large and that manipulators have never permitted a large number to win, is untenable. The writer apparently confuses the present accumulation of cash holdings at low prices, after a great decline, by people who were wise enough to *wait,* with the speculative debauchees of the past. When the general public becomes inflamed and rashly buys anything and everything on slight margin, we may be sure what the ultimate result will be. Such conditions, however, and the buying of the last few months are not comparable in any degree.

I do not think the importance of crop conditions is made impressive enough in the conclusion. The crops are more important than all the other factors combined. The chart which accompanied my letter of February 15 showed that only once in 25 years have stock prices failed to respond to good or bad crops.

But the most surprising feature of the analysis is the failure of its framer to speak of the element of *discount* in stock prices. In the year 1907 we suffered a decline in stock prices which, measured by percentages, was greater than any decline since 1887. To what shall we attribute this enormous shrinkage except as an *anticipation* of these "unfavorable" factors. The high cost of living, the high wages, the small clearings, dull business, war clouds, labor troubles and other factors have all had their contributory influence. The stock market invariably moves *ahead* of fundamental conditions and business crises. Certainly no one expects the stock market to pay its bills twice. It is now my opinion that the bills have been receipted and canceled and that in many cases usury has been practiced. In his conclusion that there will be a few more dividend reductions and a few more receiverships, the writer is quite correct. But we can now put a finger on all these weak spots. Their fundamental conditions are known and not *speculative* and such action as may be taken is merely a matter of expediency or policy. Dividend reductions have been good bear factors when they actually appeared. In a recent letter I pointed out the anomalous but incontrovertible fact that the man who purchased Steel Common when its dividends were entirely eliminated and sold the stock when dividends were resumed would have bought at the approximate bottom and sold at the approximate top.

The General Situation.

The week has brought conflicting reports as to recovery in general business. There is some complaint in steel and iron quarters

that the improvement has slacked up somewhat. Mr. James J. Hill has offered some views which are construed as pessimistic, but carefully analyzed they appear Delphic. In commenting on Commissioner Lane's optimistic expressions Mr. Hill said in effect: "Hang Mr. Lane's predictions up and see how they compare with the truth as shown by future events." This was, by inference, a refutation of Mr. Lane's views, but is in reality mere circumlocution. It does not commit its author in any way. Mr. Lane's deductions, by the way, are open to criticism. His figures are correct, but he does not understand them. The fact that Mr. Hill and his friends have accumulated a lot of Northern Pacific recently is rather significant. It would be extremely interesting if someone could pin Mr. Hill down to a definite opinion on the future of stock prices.

While a slight halt in the improvement in general business may be admitted, it may be said that this represents a resting place and not a retrogression. Fluctuations occur in every long swing of economic conditions, just as they occur in the stock market, in the crops or in any other quarter. It is my opinion that, given good crops, our general business will gradually improve until normal conditions are apparent.

The Technical Situation.

The technical situation has improved during the week. There has been a continuance of scale-order buying by strong interests and a considerable amount of short selling of an indiscriminate character. In Union Pacific and Northern Pacific the buying has been of a particularly high order. As a class, the buying is still much better in rails than in industrials.

Crop Conditions.

Crop conditions continue very favorable and better than normal crops of wheat and oats are indicated. Expert W. B. Snow, in his report of April 1, makes the average condition of winter wheat 90.2, against 88.1 on April 1, 1907, and a ten-year average of 85. Mr. Snow states that spring growth has begun in the most northern districts; that there is an ample supply of moisture and rapid plant development; that the green-bug is receiving little attention.

The limitations of space forbid a full discussion of this vital subject in this letter, but the special crop letters issued on Tuesday of each week will cover the matter fully. I am now perfecting arrangements with the best crop experts in the West and South and the most competent opinions will be offered in these columns.

Conclusion.

I do not change the opinion offered in last week's letter, that this reaction will not extend to an average of five points. The reaction so far shown by the barometrical figures is as follows:

	High point of Advance.	Lowest to Date.	Extent of Reaction.
23 Active Rails	75.44	73.08	2.36
18 Active Industrials	58.97	56.97	2.00
41 Rails and Industrials. .	67.21	65.02	2.19

The exact limit of a reaction is, of course, guesswork and we may get a little more of this one, but the decline will not be extensive enough to hurt anybody. These reversals are inevitable and healthful. The *trend* of the market is to a higher level as may be seen by a glance at the following chart.*

It will be observed that the purchaser of stocks who employed intelligent methods and exercised a little patience could not have made a mistake in the five months diagramed.

The reduction of the Atchison dividend to 5% is a favorable factor. The stock at this level is one of the most attractive things on the list. On a five per cent. basis Atchison shows a greater income return than any of the other dividend payers except B. & O., Union Pacific and Southern Pacific and the three stocks last named have not yet been tested in the crucible. B. & O. particularly will probably have to reduce its rate of disbursement at the next dividend meeting.

This letter is necessarily placed in the printer's hands on Friday, too early to permit of details in regard to the Erie meeting. I do not think the matter, so far as its effect on stock prices is concerned, is of as great importance as is generally believed. Unfavorable action might bring about a little dip in prices, nothing more. It is probable that no receivership will occur at present.

Continue to advise purchases of good rails on all reactions. Atchison, Pennsylvania, Union Pacific, Northern Pacific and Reading look very cheap. The opportunities in these rails are at present greater than in the industrials.

* This chart appears on page 24 of the Book of Charts issued in connection with this volume.

April 11, 1908.

It has recently been pointed out by a number of writers and students of price movements that general business conditions as indicated by the bank clearings are not making satisfactory progress, the deduction in all cases being that stock prices were menaced. In this conclusion I do not concur. The anteriority of stock prices does not appear to be given due consideration. There is nothing in history to show that stock prices and existent conditions move together. The very word "speculation" indicates precession in prices.

We may best get at the value of this particular analysis by comparing the bank clearings and stock movements during recent panic

periods. By this means we can figure out the percentage of recoveries after depressions and also observe what happened to bank clearings. The only way to get at the latter factor is by comparison with preceding years, as clearings rise and fall naturally in certain months and seasons of the calendar year. In the following tables I have taken only the first recovery after a great decline and have, of course, reduced such recovery to percentages, as "points" would make an unfair showing. The basic figures employed are those of the *Wall Street Journal* covering average movements of 20 active railroad stocks. My own figures do not go back far enough. The period of time given is not exact, but is near enough for purposes of comparison. In some cases the recovery has not been marked in the actual "panic" year and the year next following is taken:

Recovery of 1885.

The lowest prices for stocks following the 1884 panic were established in April, 1885, and with the exception of a limited decline in August and September, the trend was upward until November.

Low price, April, 1885.	High price, Nov., 1885.	Recovery.	Period of Time.
55	75	36%	7 months.

Total Clearings of Entire United States, April to November, 1884-85.

	1884.	1885.	Change.
April	$4,056,296,304	$2,897,129,885	Dec. 28.5%
May	4,528,437,842	2,993,941,592	Dec. 33.9%
June	3,402,428,586	2,970,494,409	Dec. 12.6%
July.	3,199,031,698	3,471,361,075	Inc. 8.5%
August	2,983,593,069	2,984,252,677	No change.
September ..	3,022,390,897	3,112,022,471	Inc. 2.9%
October.	3,495,942,446	4,444,948,995	Inc. 27.1%
November	3,101,538,914	4,541,210,474	Inc. 46.4%

Recovery of 1893.

Lowest prices of stocks were established in July and the movement was upward until October.

Low price, July, 1893.	High price, Oct., 1893.	Recovery.	Period of Time.
45	57	27%	3 months.

Total Clearings of Entire United States, July to October, 1892-93.

	1892.	1893.	Change.
July.	$4,653,541,650	$4,158,802,833	Dec. 10.6%
August	4,545,180,549	3,669,972,293	Dec. 25.9%
September . ..	4,826,660,047	3,342,946,914	Dec. 30.7%
October.	5,438,738,050	4,042,828,018	Dec. 25.7%

Recovery of 1896.

Lowest prices of stocks were established in August and the recovery lasted until October.

Low price, Aug., 1896.	High price, Oct., 1896.	Recovery.	Period of Time.
41	57	39%	2 months.

Total Clearings of Entire United States, August to October, 1895-96.

	1895.	1896.	Change.
August..	$4,138,315,716	$3,551,552,303	Dec. 14.2%
September	4,175,215,505	3,701,860,057	Dec. 11.3%
October..	5,233,792,576	4,594,555,715	Dec. 12.3%

The comparison between 1903 and 1907 has already been discussed in detail in these advices. From September, 1903, to March, 1905, the market trend was decidedly upward, and in that time prices advanced from 88 to 128, or about 45%. The year 1904, standing alone, is the best illustration of recovery in this period, as while lowest prices were reached late in 1903 the recovery was not marked until early in 1904.

Recovery of 1904.

Low price, Jan., 1904.	High price, Nov., 1904.	Recovery.	Period of Time.
92	117	28%	10 months.

Total Clearings, January to November, 1902-03.

	1902.	1903.	Change.
January..	$10,659,488,889	$11,088,982,021	Inc. 4%
February	8,359,075,922	8,468,707,464	Inc. 1.3%
March	8,882,679,652	9,582,278,076	Inc. 7.9%
April	10,926,088,598	9,881,868,829	Dec. 12.3%
May..	10,386,241,376	9,118,534,323	Dec. 12.2%
June..	8,208,741,458	9,422,481,909	Inc. 14.8%
July..	10,170,632,777	9,767,845,638	Dec. 4%
August	8,943,669,592	7,921,228,126	Dec. 11.4%
September	10,157,713,727	7,673,660,288	Dec. 24.5%
October	11,357,121,573	9,176,664,258	Dec. 19.2%
November	10,087,071,173	8,169,919,664	Dec. 19 %

Recovery of 1907-08.

Low price, Nov., 1907.	Price, Apr. 8, 1908.	Recovery.	Period of Time.
81.41	93.51	15%	5 months.

Total Clearings of United States, November, 1907, to March, 1908, as Compared with Corresponding Months in Preceding Years.

	1906.	1907.	Change.
November	$13,656,039,900	$9,659,316,632	Dec. 29.3%
December	14,285,466,619	9,407,038,651	Dec. 34.1%
	1907.	1908.	Change.
January..	15,020,747,342	11,359,308,232	Dec. 24.5%
February.	11,792,953,798	8,756,701,857	Dec. 25.9%
March	14,625,282,333	9,777,937,943	Dec. 33.3%

It is pretty definitely shown by the above figures that stock movements cannot be judged by comparisons of bank clearings, and that this popular method is incorrect. It is, in my opinion, much more reasonable to compare each month with the preceding month and follow the trend of gradual improvement or retrogression. This method is reasonable, but the mere comparison with last year is misleading, as stock prices have already discounted and paid for the gap between this year and last.

It may be interesting to note in connection with the above tables that the trend of the stock market has been upward for several months. We all know that prices are higher now than in November, but the gradual and insidious upward tendency is not fully appreciated. This is best illustrated by a chart.*

It will be observed that the unfortunate individual who bought at the top in December or January and held his position made money; that the man who bought at the bottom in November and sold at the bottom in February also made money and that the man who bought at the beginning and sold at the end of the period made money. The opportunities during this five-month period were good. There is no getting away from that. The whole matter hinges on the use of intelligent methods. But I can put my finger on dozens of instances where speculators have lost money on *purchases* in this period. The whole trouble lies in the overlasting get-rich-quick idea which induces a man to do something every day or week.

While the trend has been upward, it may be noted that the recovery so far has been smaller than in any of the other periods examined. There is good reason to expect a continuance of this trend for a time. Our excellent crop prospects make comparisons with 1893 and 1894 untenable. The wheat crop of 1893 was the smallest in 25 years with one exception (1885) and the total cereal crop of 1894 was the smallest in 25 years with the exception of 1881. Of course, we cannot tell what the production of cereals will be in 1908, but so far everything is promising.

* This chart appears on page 25 of the Book of Charts issued in connection with this volume.

The General Situation.

The Erie note matter and the government crop report were the all-absorbing topics of the week. It appears incredible that the matter of $5,000,000 of notes should have attracted more attention than the most vital and basic factor in the entire situation, but it is a fact that a great many traders did not even know a crop report had been issued. The condition and acreage of wheat as of April 1 indicate a crop of 494,000,000 bushels of winter wheat, which would be a record yield. April is a crucial month, but it is found that since 1900 crop conditions have improved during April in five instances and deteriorated in three.

The Erie matter is now on the shelf indefinitely, and no further trouble need be anticipated in that quarter.

Reports of general business conditions are very much mixed, but there is, on the whole, a gradual improvement. In some portions of the West business is very good. Traffic is increasing, as is evidenced by the estimate of 296,000 empty cars on March 8, as compared with 343,000 on February 5. This shows a decided improvement over January, the February net earnings being 22% less than in February, 1907, while the January net earnings showed a drop of 34%, as compared with the corresponding month in 1907. The readjustment of ratio of operating expenses to gross which has been frequently predicted in these letters is also showing now. Economies are daily being effected which will gradually reduce the ratio to normal proportions. Failures in March were smaller than in February. There is some complaint from wholesalers of poor business, and the iron and steel business is rather disappointing, but conservative and well-posted men are confident of a revival in this line before long and are making their plans accordingly. Considering all the factors mentioned, it is my opinion that we are making reasonable progress in the right direction.

The Technical Situation.

The technical situation is better at the close of the week than for some time. This is due not only to the stubborn short interest, which has had no opportunity to cover, but also to the sold-out condition of public traders. The Erie bugaboo induced a great many marginal operators to clean up their commitments, and it has not been possible to replace lines to advantage as yet. There is a big short interest in the so-called "uptown crowd." These are the astute gentlemen who bought Union Pacific around 180 and afterwards sold their automobiles. So far as I have been able to judge, their principal amusement is being wrong on the market. Some of them are shrewd enough, but as a bunch they are good people to copper.

The technical position of Atchison, Pennsylvania, Union Pacific and Steel common is particularly strong. There is not much stock offering in any quarter.

Crop Conditions.

The ten days elapsing since the condition of 91.3, shown for winter wheat by the government report, have been favorable in every way. Corn ground is being broken now and a large acreage is anticipated. Fruit prospects are also good, the buds having escaped injury so far. Too little attention is paid to this last factor, which is of great importance in certain localities.

The prospects so far have seldom been more favorable at this time of year, but this most vital and important factor should be accorded unusual attention now.

Conclusion.

I see no reason to alter my position even temporarily as yet. The technical and statistical position of good securities warrants a further recovery from this level of prices. The atmosphere is clearer than for some time, and the bear crowd is hard up for ammunition. For the next week or two I consider it safe to buy such stocks as Atchison, Pennsylvania, Union Pacific and Reading on every little dip. In my opinion these stocks offer the best opportunities with greatest factor of safety. If the market gets to going too fast, however, it will be dangerous. What we want is a steady recovery, not a runaway bull market. I will keep a close watch of the rapidity of progress and the technical situation and try to protect my clients against a shake-out.

April 18, 1908.

The market during the week has lapsed into extreme dullness and news affecting values has been limited both as to quantity and importance. Current discussions have referred to gold exports, crop prospects and currency legislation. The factor last named is not of immediate importance. We are rather suffering from redundancy than scarcity just now, and it is highly improbable that money stringency will interfere with our calculations for a long time. That some form of currency legislation is desirable cannot be questioned. We have had a severe lesson, a forcible demonstration of the inadequacy of our present miserable rigid system, and so far as that single fundamental is concerned we should certainly cure the evil. But this contingency and its further effect on stock prices is remote and need not be considered as an immediate influence. The exportation of gold is to a great extent due to our currency system, and with civilized methods we would not need to fear this factor.

It is my opinion that the evil effect of gold exports on stock prices is vastly overestimated. The shipping of the yellow metal in considerable quantities has always been a favorite weapon of the bears, but it has not always proven an efficacious one. In our recent disturbance we hurriedly imported about $100,000,000 gold, and it is quite natural that the tide should

ebb. Our trade balances are, however, operating at present against large gold exports, and European reinvestment in our securities is almost certain to appear before long.

In order to show the effects of gold exports on stock prices I have prepared the following table:

Table Showing Imports and Exports of Gold 1883-1907.

Year.	Imports.	Exports.	Excess of Imports.	Excess of Exports.
1883	$17,734,149	$11,600,888	$6,133,261	....
1884	22,831,317	41,081,957	....	$18,250,640
1885	26,691,696	8,477,892	18,213,804	....
1886	20,743,349	42,952,191	....	22,208,842
1887	42,910,601	9,701,187	33,209,414	....
1888	43,934,317	18,376,234	25,558,083	....
1889	10,284,858	59,952,285	....	49,667,427
1890	12,943,342	17,274,491	....	4,331,149
1891	18,232,567	86,362,654	....	68,130,087
1892	49,699,454	50,195,327	....	495,873
1893	21,174,381	108,680,844	....	87,506,463
1894	72,449,119	76,978,061	....	4,528,942
1895	36,384,760	66,468,481	....	30,083,721
1896	33,525,065	112,409,947	....	78,884,882
1897	85,014,780	40,361,580	44,653,200	....
1898	120,391,674	15,406,391	104,985,283	....
1899	88,954,603	37,522,086	51,432,517	....
1900	44,573,184	48,266,759	....	3,693,575
1901	66,021,187	53,185,177	12,866,010	....
1902	52,021,254	48,568,950	3,452,304	....
1903	44,982,027	47,090,595	....	2,108,568
1904	99,055,368	81,459,986	17,595,382	....
1905	53,648,961	92,594,024	....	38,945,063
1906	96,221,730	38,573,591	57,648,139	....
1907	114,510,249	47,579,484	63,111,073	....

This table is particularly interesting in one regard. It shows most forcibly the protracted period of evil and extravagance between 1889 and 1906. In that period our excess of merchandise exports (after allowing for adverse balances of 1889 and 1893) amounted to $705,088,989, as follows:

Year.	Exports.	Imports.	Credit.	Debit.
1889	$742,401,375	$745,131,652	....	$2,730,277
1890	857,828,684	789,310,409	$68,518,275	....
1891	884,480,810	844,916,196	39,564,614	....
1892	1,030,278,148	827,402,462	202,875,686	....
1893	847,665,194	866,400,922	....	18,735,723
1894	892,140,572	654,994,622	237,145,950	....
1895	807,538,165	731,969,965	75,568,200	....
1896	882,606,938	779,724,674	102,882,264	....
		Total . .	$726,554,989	$21,466,000

In other words, we earned or realized from our products in eight years $705,088,989 and still shipped away $323,628,544 of our gold. To this bad state of affairs there were many minor contributory causes, but, in my opinion, the word "extravagance" covers the matter pretty well. We were living beyond our means. It will not do to attribute this dissipation of our gold to such factors as the enormous sums paid for the transportation of freight in foreign bottoms, expenditures of tourists, nor to the still more enormous sums represented by the remittances of aliens. These factors are still with us and yet we are making a great change and a great improvement.

It is not the economic side of this question which is under consideration, however, but the question of stock-price movements. The extravagance mentioned above was faithfully reflected in security prices. In May, 1890, the stock market had reached the highest average price in many years, and it was not until 1900 that this average price was again reached. The trend of the market from 1890 until 1896 was downward, and in the year last named average prices of stocks had been cut squarely in two. According to the "Wall Street Journal's" figures, the average for 20 Rails in May, 1890, was about 87 and in July, 1896, about 42.

It would be very rash to draw a conclusion from the above statements that gold exports from month to month mean declining stock prices. We may export a reasonable amount of gold and still show a very large balance in our favor at the end of the year. I think this will be the case in 1908, or at least in the fiscal year 1907-8, which will cover the statistical history of our panic. The constant falling off of our imports with no undue diminution in exports shows that the lesson of economy has in this case been quickly learned. It would appear from this that even fright has its uses. True, we have rushed goods and staples abroad recently and in certain lines our quick assets have been reduced; but the crops are promising and our natural resources are as great as ever. It is because of this more or less sold-out condition of some commodities that I harp so much on the necessity of good crops this year. We certainly cannot afford to have a crop failure under present circumstances, and I would be inclined to go pretty slow with my bullish expressions and recommendations if the crops were menaced. Everything depends on this great factor, and it is gratifying to note that the promise to-day for cereals, cotton and fruits has never been better. All these things are, in the last analysis, gold.

The direct effect of gold movements on stock prices in recent panic years may be determined by reference to the following table:

Net Imports and Exports of Gold—By Months.

	1893	1896	1903
January	+$12,213,553	+ $24,576	—$1,924,900
February	+ 12,988,068	— 9,468,296	— 311,086
March	+ 1,504,991	— 354,596	— 3,525,130
April	+ 18,344,979	+ 2,512,524	+ 255,845
May	+ 15,205,760	+18,399,161	+13,025,423
June	+ 1,701,544	+ 5,933,530	+ 9,740,035
July	— 5,776,401	+10,263,450	+ 4,486,551
August	— 40,622,529	— 2,316,994	— 7,763,777
September	— 5,242,083	— 93,555	— 4,186,782
October	— 1,072,919	—27,825,762	— 4,673,859
November	— 4,139,832	— 7,019,290	—10,377,540
December	+ 1,908,300	— 2,369,218	—15,765,642

+ Excess of exports.
— Excess of imports.

By consulting the charted movements of stocks by months in these periods, we find nothing but a hodge-podge of conflicting waves. So far as intermediate changes go these fluctuations are valueless as guides. Sometimes the market advances in the face of gold exports; sometimes it declines in the face of gold imports. At present we can afford to export a good deal of gold without worrying.

It is certain that the amount of gold to go abroad on this movement is entirely a matter of conjecture. If French bankers go on competing with the Bank of England for the metal from the Cape, the price would probably advance enough to induce offers of interest on gold in transit. So far as our market movements are concerned, I do not think the trend will be affected by the shipment of even a considerable amount of gold. The matter is discussed because it is certain that every shipment will be pointed to by the destructionist as a bear argument, and I wish to offer my opinion that it will prove unimportant as a price factor. The bearish writers informed us last week, for example, that "France was grabbing for gold with both hands." The truth is that France is offering no extraordinary inducements whatever, and is merely taking gold in the regular course of exchange operations. As to Germany, it may be pointed out that Berlin exchange on London is far above the import point and triangular shipments are, under present circumstances, out of the question. Unless there is a marked change in this regard, whatever gold we send to Germany must go direct.

The General Situation.

The situation still displays a waiting attitude in many lines, but the prospects point to steady improvement. The gradual betterment in traffic has not as yet been materially reflected

in railroad earnings, but that will come later on. Interior merchants are not buying as freely as usual, but their shelves are bare of goods and good crops will incite freer buying. There is a good deal of talk among the pessimistically inclined as to what **can** happen to crops between now and harvest time, but this is drawing the long bow. **It is impossible to imagine how we are to speculate on anything but our prospects.** The indications now point to large crops, and these indications must be adopted as the basis of operations so far as this factor is concerned.

The iron and steel trade is also a little slow, but there are many contracts in sight and they will come to market with a rush at the first sign of activity.

While I cannot point to any radical improvement in the general situation, as represented by actual transactions, it may be said that we are merely hesitating—not going backward—and before another month has passed the signs of advancement will, in my opinion, be so marked that he who runs may read.

The Technical Situation.

Inquiries made to-day and yesterday of about fifty leading brokers bring to light the fact that the amount of stocks now carried on margin is smaller than at any time in a year. One of the gentlemen who accorded me this information said: "This is the one and only indication of higher prices which I have never known to fail." His opinion may be supported by very simple reasoning. Marginal accounts represent the weaker speculative holdings, and if the stocks are not there, where are they? The answer is an obvious one. If stocks are not in weak hands they are in strong hands, and I think the hands of the small investor who has wisely locked up ten shares of stock in his tin box are as strong proportionately as in the hands of the great financier who has been accumulating stocks for several months. The removal of stocks from the market recently by both small and large investors has reduced the floating supply to a minimum, and this fact alone, without considering the preponderance of bearish sentiment, is enough to put our security market in a strong technical position.

But the bearish sentiment is also important so far as immediate movements are concerned. The sentiment of traders is naturally reflected in their operations, for if these gentlemen did not operate they would not be sentimental. A financial writer who is very painstaking in his investigations, informed me yesterday that he had decided, after a careful canvass of brokerage houses, that three traders out or four were mildly bearish (75). Taking these two technical factors together, we are in a position where a very sharp rise may be engineered at any time. I do not mean to phophesy such a rise, and it is

not desirable, but the technical situation is so strong that it might appear any day.

Specifically, Union Pacific, is in a stronger technical position than any stock in the railroad group. The stubborn short interest in this stock is unusually extended. On the other hand, Atchison and Pennsylvania, both of which are in a strong statistical position, suffer temporarily from too much indiscriminate buying. In spite of this temporary drawback, I believe the inherent strength of the stocks last named and the factor of safety warrant their purchase in preference to Union Pacific.

In the industrial group there is a large short interest in Steel common, and the stock will probably advance rapidly before long. Smelters is in the same position.

The technical situation is very good.

Crop Conditions.

Kansas State report for April makes wheat condition 91.4, as against 84 last April. This is very favorable.

Crop experts wire as follows: B. W. Snow, from Holdredge, Nebraska.

"From Lincoln to Hastings wheat is in fine shape, good stand and growth, perfect color. West of Hastings, much less pleasing. Effect of dry weather there becoming apparent. Some stools dying and fields losing color, but in main plant is simply standing still, and no irreparable damage so far. Rain within ten days would make situation satisfactory. Oats coming up and still making growth."

John Inglis, from St. Louis:

"Through Missouri bottoms wheat prospects good. On uplands fair. Stand thin."

Prospects are not materially changed in the last few days. Everything indicates a large crop. No damage has occurred so far, but we are in a crucial period, so far as winter wheat is concerned. There has been some rainfall in the affected territory, but it does not appear to be sufficient. The crop letter of April 21 will cover conditions in detail.

Conclusion.

Continue to recommend purchases of all good stocks. Prefer Atchison. Pennsylvania, Union Pacific and Northern Pacific. The traction group is accorded considerable attention at present, and I believe these stocks will sell at much higher prices later on. There is, however, a soda-water appearance in this bulge, and the rails offer better opportunities with less risk. Taking the market as a whole and considering the probable immediate movements from both the technical and statistical point of view, I can see nothing in sight but high prices.

April 25, 1908.

The question of what may be expected after a period of dullness has been much discussed recently and there are not wanting those who refute the Wall Street maxim: "Never sell a dull market." A few days ago I expressed the opinion that dullness was usually followed by higher prices. This was, however, a view based only on memory and impressions, and therefore not conclusive. As it is not difficult to arrive at the truth so far as it is reflected by precedent and as the matter is most interesting, I have prepared the following tables. It will be understood that I do not seek to support my own views in this matter. Personally, I consider it very bad speculating indeed to follow mere precedents or "habits" of a market. If in making these calculations I had discovered that dullness was usually followed by declines or that the matter was too equally divided to be of importance, I would have been perfectly satisfied. As it turns out, however, the old adage mentioned above is strongly supported by history.

The following exhibits will make this clear:

Table Showing Monthly Sales of Stocks on New York Stock Exchange for Years 1888 to 1908, in Shares.

(Three Figures Omitted.)

Year.	Jan.	Feb.	March	April	May	June
1888	3,926	3,945	5,250	7,614	6,213	3,825
1889	4,872	5,928	6,146	4,821	7,155	6,775
1890	6,353	5,199	4,497	5,082	11,052	5,440
1891	5,618	3,275	3,146	7,183	6,288	3,978
1892	9,992	11,434	8,933	6,815	6,176	5,374
1893	10,583	10,742	7,390	6,271	8,972	4,823
1894	4,519	3,173	4,755	4,024	4,808	3,395
1895	3,243	3,024	5,128	5,036	8,932	6,030
1896	4,535	5,203	4,586	4,058	2,799	4,370
1897	3,365	2,803	5,039	3,569	3,342	6,436
1898	9,290	8,950	10,086	5,979	9,191	9,173
1899	24,251	16,106	17,742	16,993	14,955	10,903
1900	9,843	10,195	14,446	14,772	9,519	7,808
1901	30,631	21,681	26,809	42,149	25,322	29,686
1902	14,839	13,021	11,890	25,845	13,564	7,765
1903	16,006	11,927	15,020	12,242	12,464	15,535
1904	12,275	8,571	11,418	8,163	5,260	4,985
1905	20,765	25,364	29,062	29,371	20,538	13,536
1906	38,512	21,699	19,467	24,330	24,026	20,340
1907	22,702	16,470	32,208	19,235	15,827	9,749
1908	16,594	9,839	15,939			

Year.	July	Aug.	Sept.	Oct.	Nov.	Dec.
1888	4,678	4,739	7,322	6,743	5,339	6,379
1889	5,628	5,062	5,642	7,577	6,980	5,423
1890	3,004	4,141	5,141	7,165	9,066	5,137
1891	3,154	5,845	11,176	6,736	5,348	6,777
1892	3,613	5,447	6,853	7,042	5,836	8,354
1893	5,895	4,903	4,722	6,322	5,458	4,890
1894	2,803	5,034	4,064	3,882	4,545	4,066
1895	5,849	5,269	6,823	5,250	5,049	6,944
1896	5,555	4,267	4,574	4,931	5,899	3,871
1897	6,896	11,435	13,142	8,022	5,815	7,455
1898	4,791	12,105	9,379	7,463	11,004	15,283
1899	8,387	12,985	12,450	10,899	13,681	17,062
1900	6,230	4,020	5,169	10,895	22,565	23,411
1901	15,673	7,997	13,779	14,945	18,205	16,544
1902	16,240	14,017	20,921	15,894	16,972	15,630
1903	14,780	14,464	10,713	12,671	10,744	15,176
1904	12,490	12,438	18,704	32,479	31,960	28,229
1905	13,018	20,253	16,091	17,742	26,884	31,408
1906	16,346	31,804	26,018	21,895	19,401	20,457
1907	12,811	15,561	12,223	17,333	9,677	12,636

If we take the dullest month in each year here given and trace the movement of prices in the month following such dullness, we get the following results. In case of two dull months in a single year I have employed both. Percentages are approximate.

Year.	Dull Months.	Movement in following Month. Advance.	Decline.
1888	June	9%	
1889	April	5%	
1890	July		2%
1891	March	8%	
1891	July	11%	
1892	July		6%
1893	June		15%
1893	Sept.	7%	
1894	Feb.	5%	
1894	July	6%	
1895	Feb.	7%	
1896	May		4%
1897	Feb.	3%	
1897	May	7%	
1898	July	5%	
1899	July	Unchanged	
1900	Aug.	Unchanged	
1900	Sept.	5%	
1901	Aug.	Unchanged	
1902	June	6%	
1903	Sept.	4%	

Year.		Dull Months.	Movement in following Month. Advance.	Decline.
1904	....	June	5%	
1905	....	July	5%	
1906	....	July	6%	
1907	....	June	5%	
		Nov.	5%	

It will be observed that in 26 cases 19 were followed by advances, 4 by declines and 3 were practically neutral. It may also be noted that two of the declines occurred in panic years (1893 and 1896), during which periods the evil influences were great enough to overcome whatever natural or mechanical laws the market may be subject to.

We may assume that if dullness is followed by advances, activity should be followed by declines. We can get at this by reversing the process employed above.

Year.		Active Months.	Movement in following Month. Advance.	Decline.
1888	....	April		7%
1889	....	Nov.	Unchanged	
1890	....	Nov.		6%
1891	....	Sept.		5%
1892	....	Feb.		3%
1893	....	Feb.		4%
1894	....	May	2%	
1895	....	May		5%
1896	....	Nov.	4%	
1897	....	Sept.		12%
1898	....	Aug.		5%

Year.		Active Months.	Movement in following Month. Advance.	Decline.
1899	....	Jan.	5%	
1900	....	April		7%
1901	....	Jan.	7%	
1901	....	June		3%
1902	....	April		3%
1903	....	Jan.		4%
1903	....	Dec.	5%	
1904	....	Oct.	3%	
1905	....	April		7%
1906	....	Jan.		5%
1907	....	March	4%	

NOTE.—Where December was most active month, followed by an active January in the year following, January has been considered.

A careful study of these tabulations will develop many other interesting points. In the figures given above only month to month

movements have been considered, but we can go further afield and examine the longer periods of dullness and activity. Thus the months of May and June, 1904, preceded a great bull market. In most cases it will be found that the figures already produced are well supported in longer periods and that undue dullness represents the bottom of a market just as undue activity represents the top. These numerous deductions must be left to the ingenuity of the reader, as I have not the space at my disposal to permit of elaboration. In order to facilitate investigations a chart covering the movements of stocks by months is enclosed with this letter.* It will be found that in a few instances my figures do not exactly agree with the chart, as two different sets of barometrical figures were used. As the advances and declines are reduced to percentages, however, the devitation is slight and unimportant.

I have already stated that I consider it poor speculating to base operations on mere records of former movements. Such exhibits have their educational value, but too much dependence cannot be placed on them. Dullness is usually followed by an advance—not always—and it is much better to examine the logic of the matter. Having discovered the principles on which this phenomenon is based, we can determine whether those principles are now operative. It would certainly have resulted in disaster if we had purchased stocks on the "dull market" theory in 1893. Dullness is present at the bottom because the market is in a sold-out condition. The small sales represent a small floating supply of stocks and as the stocks are not in the Street they must be in strong hands. Dullness, in other words, represents the completion of necessitous liquidation and in the natural cycles of prices the nadir has been touched. This refers to either a major or minor cycle. In 1893, however, the bad economic factors which were in themselves sufficient to bring about a decline, were aggravated by crop failures in that year and in 1894. Also the black cloud with a very questionable silver lining was banking up on the horizon and even strong hands grew weak under all this stress. Personally, I am convinced that if crop failures and silver agitation had been eliminated the decline of 1893 would have been less severe and the apathy of 1894 and the aftermath of 1896 absent entirely. It is fashionable at present to draw long comparisons with 1893-1894 and 1896, but we know absolutely what the influences were in that period and to ignore them now and attempt to make parallels out of right angles does not comport with reason. Why not make the comparisons with 1903-1904 and 1905. It is much more logical. Many newspaper writers are now recommending extreme caution in their utterances. This advice would have been much more valuable if it had been offered a year ago. If there is ever a time when boldness is warranted it is when stocks are selling at low prices, after a big decline, with money easy and with the promise of bumper crops. The writers mentioned are simply "skeered."

* This chart appears on page 57 of the Book of Charts issued in connection with this volume.

The General Situation.

My reports this week are much more cheering. Out of fifty opinions received from different quarters I find only two or three complaints as to business prospects. The tide seems to be turning in most industries. There is not much improvement in steel and iron as yet, but there is a possibility that prices will be cut in the near future, which action would at once stimulate trade in that line. Dry goods wholesalers speak very confidently as to an improving tendency. Mr. J. C. Eames, vice-president and general manager of the H. B. Claflin Company, gives a very broad view of the situation. He says:

"A proper understanding of the present situation can be obtained only by information as to whether the purchasing power of the people has been impaired by the recent financial disturbances. The greatest body of American consumers, the farmers, has been enjoying a period of unparalleled prosperity, which bids fair to continue this year. The latest reports on the condition of wheat of the Federal Agricultural Bureau show a condition of about 91%, promising a crop equal to the highest ever recorded, and its price remains at a remunerative level, owing to the ever-growing demand for domestic consumption as well as for export. Beef and pork are very high. White cotton has had a considerable decline, the price is still at a profitable level. This shows that the power to purchase remains. It is a peculiar fact, to my knowledge, despite general reports, that the January retail sales to consumers were only slightly below the level of last year; February showed an actual increase; March a decrease of about 5%; and, so far, the sales for April are considerably above those of last year. Owing to the sharp decline in all lines of goods, the retail trade is waiting for further concessions, as it is materially benefited by a declining market, as prices to the consumer do not fall or rise as rapidly as wholesale prices. The former are still maintained at the high level of last year. Retail stocks on hand are largely diminished, owing to this waiting policy.

"Production in the New England mills is about 50% of normal, except in isolated cases, where it runs from 70 to 80%. It therefore seems to me that, with a stable demand from consumers, and 50% reduction in production, it is an economic impossibility to have a continuous decline in prices and volume of business. I believe the facts as I have stated them, will shortly cause a healthy and well sustained activity in wholesale dry goods. Even now the middle West and Texas show signs of a better demand."

The Technical Situation.

There has been some short covering during the last day or two, but it has not materially reduced the outstanding short interest. The most important bear contingent is stubborn and pretty

well fortified with cash. They will come in later on at higher prices.

It has been my practice in examining the technical situation to look at the books of brokerage concerns catering to a public trade whenever possible. There are two things to be considered in such examinations. First, the extent of commitments and, second, the amount of stocks, long or short. I think the books of a house handling fractional lots is much more representative of public opinion than are the books of a large Stock Exchange house, and I have further found that the commitments of one small concern is a surprisingly accurate barometer of a general trading bias.

In speaking of the extent of commitments I mean the amount of open trades. If there is very little stock on the books, the stocks are not in the margin account and must be in tin boxes. This makes in itself for a strong technical position, regardless of comparisons of long and short.

The second phase is the comparison of long and short commitments. It should be understood that the long interest is, so far as a public trade is concerned, *always* much larger than the short interest. In bull markets I have frequently found that there was practically nothing short. Twenty-five per cent. may be considered a strong technical situation so far as this particular barometer is concerned.

Investigations of this character are necessarily confidential, but the report of the receiver of a great bucket-shop which failed this week is public property, and I give his figures below. There are some interesting points in the tabulation. Taking it as a whole, it shows an unusual division of opinion on the part of small traders. This concern had fifty or sixty offices in small towns.

The report of total long and short transactions for all offices is as follows:

Stock.	Long.	Short.	Stock.	Long.	Short.
Amal. Copper	1,750	960	Norfolk & Western	270	...
Smelters	1,480	440	Ontario & Western	480	...
Atchison	1,255	470	Pacific Mail	1,245	...
Atchison pfd.	10	...	Pressed Steel Car	440	10
Am. Car & Foundry	565	420	Pennsylvania	900	405
Am. Locomotive	360	...	Reading	2,435	1,435
Anaconda	600	...	Rock Island	1,065	...
B. R. T.	1,105	250	Rock Island pfd.	530	...
B. & O.	350	60	Republic Coal & Iron	280	200
C. & O.	135	200	Rep. Coal & Iron pfd	825	20
Cast Iron Pipe	195	10	Railway Steel Spring	20	...
Colo. Southern	50	...	United States Rubber	295	...
Colo. Fuel & Iron	1,560	10	Southern Pacific	1,335	185
Canadian Pacific.	555	...	Southern Pacific pfd.	10	...
Distillers	375	...	C., M. & St. Paul	895	440
Den. & Rio Grande	10	...	Southern Railway	825	10
D. & H.	10	...	South. Railway pfd.	110	10

Erie	630	425	American Sugar	410	250
Erie 1sts	110	...	Texas & Pacific	180	...
Erie 2ds	30	...	Amer. Grass Twine	80	...
Chicago Gt. Western	1,455	...	Union Pacific	1,640	840
Great Northern	185	...	U. S. Steel	2,165	715
Great Northern pfd.	720	110	U. S. Steel pfd.	415	870
Illinois Central	225	...	Virginia-Carolina Co	170	...
Inter-Met.	250	...	Va.-Carolina Co. pfd	10	...
Inter-Met. pfd.	165	10	Wabash	50	...
American Ice	60	...	Wabash pfd.	220	...
M., K. & T.	495	90	Wis. Cent.	80	...
M., K. & T. pfd.	20	20	Wis. Cent. pfd.	10	...
U. S. Leather	90	...	New York Central	825	560
L. & N.	725	175	Chic. Northwestern.	20	...
National Lead	60	130	Steel Foundry pfd.	100	...
Missouri Pacific	580	115	People's Gas	200	40
Mexican Central	270	20	Sloss-Sheffield	50	...
Metropolitan	10	...	Am. Tel. & Tel.	425	90
Northern Pacific	750	440			
			Total shares	36,205	10,435

Crop Conditions.

Winter wheat continues to make good progress. There has been some relief by the rainfall in Kansas and Nebraska, but more moisture is desirable in the near future. Ohio, Indiana and Illinois have all the rain they need. In fact, too much rainfall in these districts might now prove a drawback. Plowing for corn progresses rapidly, and a large acreage is promised. Oats seeding has been somewhat delayed by continuous rains, but this is not serious as yet. The fruit crop generally has escaped injury, and a very large yield is promised. The importance of the fruit crop should not be underestimated. It amounts to about as much as the spring wheat crop in dollars.

The crop outlook is very promising.

Conclusion.

Continue to recommend purchases of all good stocks at this level or on moderate recessions. The heavy over-subscription of the Pennsylvania bond issue is a most cheering factor. The income is moderate, considering prevailing rates. I have already expressed the opinion that every bond issue from now on is a bull factor. These issues mean that railroads will pay outstanding obligations, that equipment companies will be relieved and that our great supply of stagnant money will be employed in the ordinary business channels Money so distributed will flow through every artery of the business world, and the danger of redundancy will be obviated or at least mitigated.

In my opinion Atchison, Pennsylvania, Union Pacific, Northern Pacific, Reading and Chesapeake & Ohio offer the best opportunities. The two stocks first named may be more sluggish in their movements than Union Pacific and Northern Pacific, but they are in a strong statistical position and the factor of safety is present in a marked degree. In the industrials I like Steel common best. Smelters is also good for a turn, but Steel is safest.

May 2, 1908.

The week has brought about nothing of importance in the speculative markets. The U. S. Steel Corporation's report was about as expected, and the reduction of the Pennsylvania dividend to 6% was also considered a foregone conclusion. In the bond market there has been evidence of decided improvement both as to the reception of new issues and the general trend of prices. According to the "Wall Street Journal" there has been an average advance of nearly a point in high-grade bonds during the last month. During the latter part of the week there has been a moderate reaction in stock prices. This reversal was natural and healthful, but was, of course, accompanied by much wagging of heads and pessimistic talk. A great many observers cannot see how the market can advance, many of them could not see it a month ago. I remember that in 1904, in the very dull months of May and June, a material advance was considered by the rank and file of speculators as being simply out of the question. The short interest at that time was very large and every time the market advanced a point or two the improvement was attributed to short covering. It transpired later that the short interest had covered only when forced to do so. I had occasion to make an examination of several large brokerage accounts in August, 1904, and found that every office was short of Steel Preferred at very low prices.

While I do not think the comparison between 1908 and 1904 is exact and do not by any means recommend a chart comparison as a method of trading, it is interesting to note the various day-to-day influences of that period. Beginning with the two extremely dull months, May and June, and following into July and August (the first two months of a great bull market) we have the following appearance of a chart.*

Every time the market would dip a little in July and August the bears would take heart and the air was filled with rumors and predictions. A gentleman in the brokerage business made a wager with me in July, 1904, that railroad stocks would sell an average of 20 points lower inside of six months. I quote this as an illustration of how the professionals were feeling then—just as they are now.

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* This chart appears on page 15 of the Book of Charts issued in connection with this volume.

To show that the bears were not without material in 1904 I will offer a brief chronology of the events of the four months charted above, which have been compiled from the files of the "Financial Chronicle."

May, 1904.

On May 10 the government called for $12,000,000 public deposits and on May 14 about $10,000,000 more was called in. Gold exports reached extraordinary proportions. In one week $14,000,000 was exported and in another week $15,000,000. The Japanese loan of $50,000,000 was brought out May 12 and the Russian loan of $150,000,000 at about the same time. These loans were oversubscribed, France being the principal buyer of Russian 5s. The Cuban 5% bonds ($35,000,000) were offered by Speyer & Co. and heavily oversubscribed. New York City sold $37,000,000 3½% bonds. The condition of winter wheat as of May 1 was reported at 76.5, compared with 92.6 on May 1, 1903. The stock market was extremely dull, sales for the month being only 5,,260,000 shares. J. P. Morgan & Co. took $30,000,000 N. Y. Central 4s. and a number of other issues were easily floated. Call money loaned as low as ½%, but averaged around 1 to 1½%, and four months' money was around 3 to 3½%.

June, 1904.

Weather conditions improved and the condition of winter wheat on June 1 was 77.7. The Colorado strikes and dynamite outrages occurred. President Roosevelt made numerous changes in his cabinet. The stock market was even duller than in May, total sales falling below 5,000,000 shares. The gold exports stopped, and stocks advanced about three points late in the month. Wabash passed its dividend on the "A" debentures. The most important event of the month was the announcement of a plan for financing the needs of the Southern Pacific by an issue of $100,000,000 preferred stock. There was a howl about this, but it soon died out and the rights on the new stock sold above 3. Minneapolis & St. Louis, and Indiana, Illinois & Iowa both passed their dividends. Lake Erie & Western preferred reduced its dividend from 2% to 1%. American Car & Foundry also passed its dividend. Call loans 1 to 1½%. Four months' money 2½ to 3%.

July, 1904.

Politics, of course, but no disturbance from that cause. Crop prospects slightly better, winter wheat 78.7 and corn 86.4. This was the month of the big beef-packing strike throughout the country. Wages were reduced 12½% in the Fall River mills, and a strike followed which endured until the end of the year. There were several other big strikes in July including the United Garment Workers in New York and 6,000 coal miners in the Birmingham (Ala.) district. A reduction of $3 a ton was made in the price of tin plate by the U. S. Steel Corporation. In July a very disturbing incident

occurred threatening international complications. The Russian Government had sent vessels through the Dardanelles as merchant ships and then commissioned them as men of war for the purpose of searching neutral ships for contraband. One of the boats seized was the "Malacca," carrying war materials to British storehouses at Hong-Kong. This raised Cain in Great Britain, and Consols declined sharply. All financial centers were in an uproar for a few days. Of course, the bears made the most of this. There was much greater activity on the Stock Exchange during the month and there were a number of days when sales ran close to 1,000,000 shares. It was in July that Union Pacific started the bull ball rolling by an advance from 88¼ to 99. Detroit Southern went into the hands of a receiver late in the month. There were several bond issues, all well taken. Money remained easy, call loans 1 to 1½%; four months' 2¾ to 3%.

August, 1904.

Very unfavorable developments in the iron and steel trades. Demand had fallen away generally. The American Steel & Wire Company (a subsidiary of the U. S. Steel Corporation) cut nail and wire products by $4 to $7 per ton, and this was followed by pretty general demoralization in iron and steel prices. Labor troubles became acute. The beef-packing men again quit work August 10, and the trouble in the building trades became serious. The board of governors of the Employers' Association on August 4 declared a lockout against all unions in the alliance. There was a big spring wheat crop scare and estimates were published putting our entire crop of wheat, spring and winter, at 500,000,000 bushels (it turned out to be 552,000,000). A terrific tornado swept over the Northwest. The stock market continued to go up. United States Steel stocks were very strong. Union Pacific rose to 101⅛ and the general list was buoyant. Money continued easy. Call money ½ to 1¼%; four months' 3 to 3½%.

In the above resumé I have covered only the most salient points without picking out anything good or bad. It shows that the bears had plenty of material. However, it didn't work. The wheat crop of 1904 was small, but it should be remembered that the other cereal crops were abundant.

After a long period of bear letters (in 1903) I issued a "forecast for 1904" strongly recommending purchases of good stocks. That document was greeted very coldly. Some of my friends, after reading it, seriously contemplated applying for an *inquirendo de lunatico* in my case. The great trouble was that they were doing what people do always—*Speculating on the present.* They said as forcibly as they are saying it to-day, that the market simply *could not go up,* but they found that it sometimes goes up when it can't.

The movements of rails and industrials for the month of April

are given below. Hereafter the monthly record will be produced in this form.*

The General Situation.

My private advices show some improvement in general business. About the worst factor in the situation seems to be the increase in idle cars, but this changes very quickly when business is resumed. To offset this bad evidence we have some very encouraging railroad reports. The opinion was offered in these advices about two months ago that railroads would soon begin to gain control of operating expenses and that this would be reflected in an improvement in net. This is borne out by the very small decrease in net as compared with gross, in the month of March. Reading showed only $328,000 net decrease for all companies; Union Pacific with a gross decrease of $854,000 showed a net loss of only $205,000, and Southern Pacific converted a loss of $808,000 in gross into a gain of $125,000 in net. Pennsylvania with its gross loss of $2,169,000 lost only about 25% of that amount in net. This is very satisfactory. As is always the case, there are a number of critics seeking to fortify an untenable position by finding evil in good. In this particular case they claim that the better showing in net receipts is due to the skimping of maintenance rather than to intelligent economy, but such unsupported statements are worthy of no consideration. The pig iron market continues in an unsatisfactory condition, but this is the manufacturer's point of view rather than the consumer's. Collections are good, and most of the competent judges speak cheerfully of the future.

The Technical Situation.

There has been a great deal of talk this week about a weakened technical situation. It has been pointed out that two bear concerns have failed and that their commitments were purchased under the rule. This, say our advisers, weakens the technical situation. It appeals to me rather as an evidence of the bear position of many operators who are yet to be heard from. The two failed concerns were not the only bears in Wall Street. No doubt a good many stocks have been covered recently, but there is still a stubborn outstanding short interest, and also there is a good bit of new selling. I know of one case in particular where heavy selling is going on and I should call it poor selling.

To hear the bears and many of the financial writers talk, it looks as if no advance ever occurred in stock prices except through the medium of "short covering." Personally, I think people sometimes buy stocks for other reasons, and that they are doing so now.

The floating supply of stocks is very small. This helps the technical situation, which I consider, as a whole, very strong.

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* This chart appears on page 4 of the Book of Charts issued in connection with this volume.

Crop Prospects.

There is little to add to the crop letter of April 28. Prospects generally continue good. No doubt some damage to vegetables and fruit has occurred in the Middle West by reason of storms, but we get these storms every year in one district or another and the damage is insignificant. The probable extent of the damage will be covered in detail in the crop letter of May 5.

There is an attempt in bear quarters to create a crop scare, but it is falling flat.

Prospects are unusually good so far.

Conclusion.

In the letter of April 29 I advised a temporary switch from rails to industrials. This advice was founded largely on technical conditions. I found some realizing in rails and buying in the other group by good people. In addition to this the rise in rails has been disproportionate recently and there is no reason why an equilibrium should not be established under present conditions. My last recommendation of a switch was on March 26, on which date the rails were recommended in preference to industrials. The figures since January 1 and since March 26 are shown below.

	Price Jan. 2.	Price Mar. 26.	Advance Points.	Advance %.	Price Apl. 28.	Advance since Mar. 26. Points.	Advance since Mar. 26. %.
23 Rails.	71.75	74.27	2.52	3.64	78.46	4.19	5.33
18 Industrials . .	49.69	58.70	9.01	18.13	60.06	1.36	2.20

Continue to recommend purchases of stock on these little declines. Temporarily I prefer the active industrials, such as Smelters, Amalgamated Copper, etc. In the rails the cheaper issues like Chesapeake & Ohio and Colorado Southern should do better. Do not look for any marked decline in any quarter. Setbacks of a point or two may come at any time, but it is not safe to wait for them.

May 9, 1908.

In recent letters I have called attention to the sound merits of the scale order when the market is at a low level. If prices are low and a man wishes to invest in securities or to speculate for the long pull with ample margins, the simplest method of procedure is to buy the desired line and let it alone until a reason for selling develops. But the more active speculators who think a reaction is

probable but not certain, and who want the advantage of that reaction if it occurs, and do not want to be left altogether if it does not, can best acomplish their object and assure their peace of mind by making a moderate initial commitment and averaging in the event of a decline. It is very difficult, however, to realize the fact that, following this system, a decline is the very best thing that can happen. It means ultimate profit. If, on the other hand, we get only the original lot, we can thank fortune for small favors and console ourselves with the reflection that the market is always with us.

The great trouble with averaging is that after the scheme is started, its exponent stands with his nose rubbing the ticker globe, and as the market declines, he listens to the stories of ruin and devastation which always accompany a decline in stock prices, and in many cases the well-laid plans are abandoned at or near the bottom.

As an evidence of the efficacy of the scale order, I will relate a little incident which occurred recently. One of my clients bought 100 Atchison at 86 before the money panic occurred. At 81 he bought 100 more; at 76 another hundred, at 71 another 100. In this case the purchaser was unusually unfortunate. He ran into a stage of the market that does not occur more than once in ten years—a panic; but to-day his entire line stands averaged at 78½, and has a fair profit. The fact that Atchison did run severely against him was his salvation.

It will no doubt be contended by many critics that few speculators have either the money or the patience to pursue such a plan as that outlined above. This may be answered simply with the statement that he ought to have both. The total amount of money invested in this operation at any time was $9,000, which includes an ample margin at all times. The profit is now $1,600. The operation has extended for six months. The man who followed the method therefore made about 35% on his money in a bad period. His dividends took care of the interest charges.

In following the scale order we should not depend on the merits of the mechanical system. Personally I would expect nothing from the method itself further than prearrangement of future operations in an intelligent manner. The following rules might be applied. First, adopt this method only when the general level of prices is low; second, purchase only good, sound stocks; third, make the initial purchase as if it were to be the only purchase. That is to say, we do not depend on the merits of scaling, but buy as cheaply as possible. Fourth, when the method is started, stick to it. Do not be disturbed by bear talk.

In the year 1907 I frequently advocated an inverted scale—sales of such stocks as Smelters, Amalgamated, etc., on the averaging system. The profits to those who followed the system were very large, but it was absolutely necessary to provide good margins even in that bear period. On one occasion Smelters rallied almost 20 points.

The very low level of prices at present makes averaging safer than at any time in years.

In recent letters attention has been called to the Copper Stocks. I think this group will do much better before long. I expect to see Amalgamated selling around 100 some time this year. This view is founded on a probable advance in the metal later on. The stocks will go first. In order to support this last statement so far as precedent is concerned, I have produced the following table and chart:

Table and Chart* Showing High and Low Prices of Copper Metal and High and Low Stock Movements of Amalgamated Copper, by Months.

	JAN.		FEB.		MAR.	
	High.	Low.	High.	Low.	High.	Low.
Price of copper metal, 1901	17	17	17	17	17	17
Price of stock	94¾	83¾	95	87¾	103¾	94½
Metal, 1902	13	11	13½	12¼	12½	12¼
Stock	78	67⅝	79	67¾	70½	61
Metal, 1903	12¾	12¼	13½	12¾	15⅜	13¾
Stock	67⅜	62¼	75¼	66⅛	75⅝	64⅝
Metal, 1904	13	12½	12¾	12¼	13	12½
Stock	52	47½	51⅞	43⅛	50¼	44⅝
Metal, 1905	15⅜	15⅛	15⅜	15⅜	15⅜	15⅜
Stock	77¼	70	77⅞	73⅛	81⅝	76
Metal, 1906	19	18⅛	18⅜	17⅞	18¾	18¼
Stock	115½	103⅞	118¼	107	109½	100
Metal, 1907	25⅞	25	25⅞	25⅝	26¼	25¾
Stock	121⅞	110⅜	115½	108½	111⅛	78½
Metal, 1908	14	13½	13¾	12¼	13¼	12⅜
Stock	53¾	45⅞	52¼	45⅛	62¾	49¾

	APL.		MAY		JUNE	
	High.	Low.	High.	Low.	High.	Low.
Price of copper metal, 1901	17	17	17	17	17	17
Price of stock	128½	99⅞	125	90	130	118½
Metal, 1902	12½	12	12¾	12	12¾	12¼
Stock	68½	63½	71⅞	65	69¾	62¼
Metal, 1903	15⅛	14¾	15¼	14¾	15¼	14
Stock	67½	60	67¼	56¾	58⅛	51
Metal, 1904	13⅝	13	13⅝	13	13⅛	12½
Stock	52¼	47⅞	51⅜	46¾	50¾	48¾
Metal, 1905	15⅜	15⅛	15	15	15	15
Stock	89⅞	78⅛	84⅞	75	84⅜	77½
Metal, 1906	18¾	18¾	18⅞	18¾	18⅞	18⅝
Stock	115⅜	100⅜	111⅜	96	110⅜	95½
Metal, 1907	25¾	25¼	25¼	25⅛	24⅞	24⅞
Stock	99⅛	89	98¼	83¾	87⅜	80¾
Metal, 1908	12⅞	12⅝	....	....	....	....
Stock	62⅛	56⅝	....	....	....	....

* This chart appears on page 55 of the Book of Charts issued in connection with this volume.

	JULY		AUG.		SEPT.	
	High.	Low.	High.	Low.	High.	Low.
Price of copper metal, 1901.	17	16¾	16¾	16¾	16¾	16¾
Price of stock	124¼	109	122¾	110	120	88⅜
Metal, 1902	12½	12	12⅛	11⅝	12¼	11¾
Stock	68¾	62	68⅜	65	71½	63⅞
Metal, 1903	14¼	13	13⅞	13	13¾	13¼
Stock	56½	35¾	52⅜	37	50	37⅜
Metal, 1904	12⅞	12⅝	12⅞	12⅝	13	12¾
Stock	51¼	49⅝	58¼	51	59¾	56½
Metal, 1905	15⅜	15	16⅝	15½	16½	16⅛
Stock	84¾	81⅞	88¾	82⅜	84¾	79⅜
Metal, 1906	18⅝	18½	18⅞	18¾	20⅛	18⅛
Stock	101¾	92⅜	111½	100¾	115½	108⅜
Metal, 1907	24⅞	22¼	22¼	20	19¼	15¼
Stock	94	85⅜	86⅛	65	74½	56¼
	OCT.		NOV.		DEC.	
	High.	Low.	High.	Low.	High.	Low.
Price of copper metal, 1900.	....	....	17	16¾	17	16¾
Price of stock	....	....	99½	93½	96½	89¾
Metal, 1901	16 15-16	16¾	16 15-16	16 15-16	17	13
Stock	92⅛	83¼	89	72½	76⅜	60½
Metal, 1902	12¼	11¾	12	11½	12	11⅞
Stock	67¼	62	65½	53	64⅝	53¾
Metal, 1903	14	13	13¾	12¼	12⅝	12
Stock	42⅜	33⅝	39⅝	35⅜	52⅝	38
Metal, 1904	14	12⅞	15⅜	13⅞	15½	14⅞
Stock	71¼	58⅛	81¾	68	82¾	58½
Metal, 1905	16½	16½	17¾	16½	18⅞	17⅞
Stock	86½	81⅛	90¾	78⅛	111¾	89
Metal, 1906	22½	20¼	22¾	22½	24	22¾
Stock	117½	109½	114¾	108⅞	115⅛	110⅞
Metal, 1907	15¼	12½	14⅞	13½	14	13¼
Stock	60⅜	41¾	52	44½	52¼	42

It will be observed that in all the great swings stock prices preceded the advances or declines in the metal. There is no reason why it should not do the same thing now.

The General Situation.

The general situation shows marked improvement this week. This betterment is perhaps more in anticipation than in actual evidence of business resumption, but if the cheerful views expressed by wise men are well grounded their potentiality is great, so far as stock prices are concerned. Mr. Jacob Schiff, who has been wonderfully accurate in his long-distance views, speaks cheerfully of the future. French economists are also speaking very kindly of American securities, and this view is backed up by large purchases of our bonds. The railroads are getting control of their expenses, and it is probable that rates will soon be reasonably advanced. Pig iron production for April was larger than expected and there is evidence

that large orders will soon be placed for both rails and equipment. Crop prospects continue promising. Taken altogether, there are signs on every hand that our recent fright is evaporating and that fundamentals are sound.

Out of about one hundred personal letters received during the week on business conditions in various quarters, I find a most hopeful view and very little complaint.

The "Wall Street Journal" has a front page article in the issue of May 8 entitled "The Gains of Six Years," which I recommend my clients to read. After enumerating the various economic improvements in the period consulted the writer draws this conclusion: "Never were basic conditions sounder for another national advance in material wealth."

In regard to the advance in freight rates which is being so strongly agitated at present I would like to offer a personal opinion. The subject is a dry one, but it should be understood.

If a man engaged in business of any kind finds that his operating expenses are rising while the prices he receives for the goods he sells do not rise, he must do one of two things; he must cut down his expenses or put up the prices of the commodities he sells. Otherwise he faces bankruptcy. What applies to the individual applies to corporations of whatever character and the greatest and most important of all our corporations are the railroads. If the prices of commodities such as steel, lumber and labor, are rising, the prices of transportation must rise or profits will dwindle until in time a vanishing point is reached.

The first question our hypothetical business man would ask himself would be: "What causes the advance in my expenses?" If it is merely extravagance or bad management the trouble is easily cured. If, however, his business is wisely conducted and he discovers inexorable economic factors at work he can do but one thing—advance his selling prices. This, then, is the position in which our railroad corporations have been placed. If they have been extravagant or badly managed the remedy is both simple and obvious, but if the advance in the cost of producing transportation cannot be prevented there is only one alternative—advance traffic rates.

The above statements may appear elementary, but personally, I have found so much that is vague and technical in the discussion of this most vital question that I seek to reduce it to simple terms and illustrations. The thing to be primarily determined is whether or not the cost of producing transportation has risen faster than the prices demanded for such service. This is very easily answered. According to the index numbers of Dun's and Bradstreet's, commodity prices have risen 50 per cent. in ten years. Transportation rates in that period have risen only slightly. Labor has risen less rapidly than commodities, but more rapidly than transportation, viz., about 30 per cent.

Next—what is the cause of this advance in commodities (includ-

ing labor)? The answer is—the increasing production of gold. Through the depreciation of gold as a standard of value, our commodity prices advance; the cost of living increases and the price of labor necessarily advances. So far as effecting economies is concerned, the railroads can do nothing to stay this upward tendency. The only vulnerable point is labor, and it would be unjust to force the prices of labor down unless it is temporarily reduced at the time of a temporary reduction in the cost of living. It may be said to the credit of the railroads that no attempt has ever been made to reduce wages except in such periods and as a matter of self-defense. On the other hand, we can point to many cases where wages have been voluntarily advanced in good times.

In my opinion, the sound economic solution of this problem is an advance in transportation rates. Such action obviates the necessity of wage reduction and does not work a hardship on any class of men. The farmer, for example, owing to the advance in commodity prices, receives higher prices for the things he sells and he should be willing to pay higher prices for the things he buys. But prejudice and self-interest interfere with the reasonable and homogeneous working of natural laws and we get to wrangling. Long before the recent financial upheaval occurred, it was evident to the careful observer that the railroads must suffer severely in the event of business depression. Some time ago, in one of my published works,* attention was called to this matter as follows: "If the increasing supply of gold is responsible for higher commodity prices it must be at once apparent that the building, equipment and maintenance of railway properties cost more and more, as all commodities, including labor, advance in price. This would be all right if the selling commodity, i. e., transportation, also advanced proportionately in price; but it is so difficult to override popular prejudice and widespread misunderstanding on this point, that we find continued agitation and legislation, not only against advancing rates, but with a view to reducing those which already obtain. There must, of course, be a limit to this thing, and if the cost of production continues to increase, the railroads must be permitted to demand higher prices for transportation. Otherwise a point would finally be reached where every railroad in the country would be forced into bankruptcy. The great danger lies in a belated assimilation of this truth by the masses, and too much demagoguery on the part of politicians who do understand, but, being politicians, prefer to reflect the views of a majority of constituents, rather than to enter a campaign of proselyting. That evils have been fostered and wrongs committed by eminent railroad financiers is certain; but there is considerable confusion of ideas on this head. Overcapitalization, illegal combinations, manipulation of funds for private gain and the swelling of dividends for stock-jobbing purposes, when the funds so distributed should nave gone into improvement or sur-
the funds so distributed should have gone into improvement or sur-

* The Cycles of Speculation.

of the great majority, and they are, as a class, prone to jump to the conclusion that any and every railroad corporation is charging unduly high rates for its services and making exorbitant returns on invested capital. This has, no doubt, been more or less true in the past in certain cases where extremely high rates were made, and the apparent returns on money attenuated by overcapitalization, but this evil is gradually decreasing, and the real fight is, or should be, against these abuses. The time is not far distant when, unless conditions change radically, the railroads must be allowed more latitude in the adjustment of rates."

This appears like undue reiteration, but, in the light of recent events, it serves to support the theory, and also shows that I hold no brief for the railroads. The conclusion is this: Certain powerful forces are operating to advance prices of everything or at least of everything germane to this discussion. If we attempt to counteract the effect of these forces either by depressing prices of labor or retarding the natural and proportionate advance in freight rates we are tampering with an engine which will keep right on running, even if it lops off a few fingers or a limb.

The Technical Situation.

The technical situation, so far as day to day traders are concerned, is not so strong as last week. There had been a considerable increase in the ranks of the weak-margined bulls and some covering by the frightened shorts. This makes frequent reactions probable, but I judge that these setbacks will be limited both in time and points. The weakness is of a wholly intermediate character. The great underlying technical conditions are very strong. There is a scarcity of floating stocks and very large interests appear to have the market well in hand. There is also an important and stubborn short interest which will not cover until prices go much higher. We have, therefore, the rather anomalous proposition that the technical situation is both weak and strong. Weak for the small movements and strong for the long pull. This fact again increases the probable efficiency of the scale order method.

Crop Conditions.

The bears on stocks who have apparently entered a community of interest with the bulls on cereals to create a crop scare are meeting with little success. It may be stated definitely that no material injury has occurred to any of the leading crops as yet. If favorable conditions prevail from now on we will make large crops of wheat, corn and cotton. The acreage of oats is not so large as it would have been if continuous rains had not interfered with planting. In regard to corn, the "Cincinnati Price Current" says in the issue of May 7:

"The plowing of corn ground has been retarded by wet weather in much of the area. Indications favor a liberal acreage being planted to corn as soon as the weather permits."

We will soon hear the cry that while the Government report is favorable as of May 1, there has been much bad weather since that date. I can say, however, that a careful examination of leading trade journals and many private reports, shows no damage of moment has occurred since May 1. We are at a crucial period, however, and careful attention must be given to this most important factor.

The Government crop report is a little disappointing, but the depreciation is not serious. The present conditions are very favorable. As this letter is placed in the printer's hands on Friday, I cannot discuss the merits of the report fully, but the subject will be covered Monday.

Conclusion.

I can see no reason to alter or change my position, and continue to recommend purchases of good stocks on every little decline. In the dividend-paying rails I like Pennsylvania and Atchison particularly. In making this statement I have nothing to say against such shares as Union Pacific, St. Paul, Southern Pacific or Reading. I think they will all go higher, but considering the statistical and technical positions and the proportion of advance in the respective securities, I believe the prospects of advance and the factor of safety to be greater in the stocks first named.

In the lower-priced rails, Chesapeake & Ohio, Texas & Pacific, Missouri Pacific and Colorado Southern look very attractive.

In the industrials I like Amalgamated and Smelters best, as they will be the natural leaders of an upward movement in this group. Some of the equipment stocks look cheap, but they are usually the last to move after a period of depression. This group will be covered in the special letter of May 14. As suggested above, I look for some slight reactions on the technical situation, but it is not worth while trying to guess them. If crop conditions change materially or if there is a decided weakening of the important technical situation I will try to get a quick word to subscribers. I hope to be able to judge the first really important recession, but shall make no attempt to guess the one or two-point reversals.

May 16, 1908.

In a conversation a few days ago with a number of gentlemen interested in the probable future movements of railroad stocks, they all agreed that the most menacing indication just now was the large number of idle cars. It occurred to me to ask how the number of cars now idle compared with former periods of depression. No one knew, but they all had an impression that the number was much greater at present than in former periods. Personally, I had the same impression, but dismissed it at once on the theory that we are naturally inclined to magnify facts which lie directly under our noses.

Things look smaller in the perspective. It would certainly be rash to merely surmise a greater amount of idle equipment to-day than in corresponding periods in the past, and again we must necessarily reduce the matter to percentages, for 400,000 idle cars to-day might represent less depression than 300,000 idle cars ten years ago. This matter of cars, idle cars, has been so vigorously touted by the bears and so widely accepted as a bad factor by the bulls that I decided to follow the matter up. This was found to be impossible so far as definite comparisons go. A number of prominent railroad men were interviewed and statistics sought for in every direction, but no information was available except for 1906, 1907 and the present time. It was, therefore, decided that a fairly barometrical exhibit could be obtained by examining gross earnings. So long as there was no material change in traffic rates in the periods consulted it may be assumed that the highest monthly gross earnings represents the maximum employment of equipment and that a decline in the earnings would fairly represent the percentage of idle rolling stock. Adopting this plan the following results were obtained:

In 1893 gross earnings for 124 railroads in the United States reached their maximum in the month of October ($49,468,861). In 1894 the minimum for 122 railroads was reached in the month of July ($33,555,253). This represents a falling off of 32.17% in gross.

In 1905 gross earnings for 124 railroads in the United States reached their maximum in the month of October ($154,758,622). In 1904 the minimum for 108 roads was reached in the month of June ($113,351,491). This represents a falling off of 26.76% in gross.

In 1907 gross earnings for 120 railroads in the United States reached their maximum in the month of October ($213,697,727).

In 1908, the last available figures for 123 roads are for the month of February and were $151,758,406.

This represents a falling off of 29.09% in gross.

Using these figures as a rough barometer of the idle cars, we get the following results:

Percentage of idle cars in 1894, 32.17%.
Percentage of idle cars in 1904, 26.76%.
Percentage of idle cars in 1908, 29.09%.

As the idle cars on the Pennsylvania system are most talked of at present, I will follow the affairs of this company specifically in the same form as that employed above.

In 1893 gross earnings reached their maximum in the month of March ($6,095,892).

In 1894 the minimum month was February ($4,002,320).

This represents a falling off of 34.34%.

In 1903 the maximum month was August ($11,041,290).

In 1904 February was the minimum month ($8,345,424).

This represents a falling off of 24.41%.

In 1907 the gross earnings reached their maximum in August ($15,522,399).

In 1908 the latest report gives the earnings for March ($10,997,169).

This represents a falling off of 29.15%.

Also using these figures as a rough barometer of the idle cars, we get the following results:

Percentage of idle cars in 1894, 34.34%.
Percentage of idle cars in 1904, 24.41%.
Percentage of idle cars in 1908, 29.15%.

It will be understood that these figures do not represent the actual percentage of idle cars in any of the periods consulted. They are used only as a basis for comparison. What is shown is that the percentage of idle cars in 1894 was 3.08% greater and in 1904 2.33% less than at the present time.

The figures for a number of roads are reasonably uniform with the specific figures on Pennsylvania. On the whole, it does not appear that our present proportion of idle cars is unprecedented.

There is another point about these idle cars. We have recently been building cars out of steel which carry double the tonnage of the old wooden cars. Now, when it is necessary to shunt certain cars off to a sidetrack it is certainly expedient to hang up the old cars and use the modern ones. But every antiquated wooden wreck counts as one "idle car." It will be seen at once that the same amount of tonnage can be handled in fifty of the new cars as in ninety or one hundred of the old ones.

At present we are hearing a great deal about the large and rapid advance in stock prices. Listening to this talk one would think the recovery unprecedented. While it is impossible to draw any exact parallel with former years, because of changed conditions and different factors which influenced movements, it is my opinion that the panic of 1907 resembled that of 1903 more closely than 1893 or 1884. In fact, I expressed the opinion early in 1907 that the cleaning up process had been checked too quickly in 1903 and that 1907 would be an aftermath of the earlier period. True, we find our depression more severe in some ways—bank clearings, for example, but, on the other hand, our trade balance shows infinitely better and our crop prospects are much more promising than in 1894.

In order to show what can happen in stock prices after a depression, the following chart,* showing the movements of stocks in the year 1904, has been prepared. By reference to the

* This chart appears on page 16 of the Book of Charts issued in connection with this volume.

chart of stock prices printed in my quarterly forecast and review it will be observed that the first three months of 1908 show a remarkable similarity of action. This, however, is largely fortuitous and I do not offer this chart, or any other chart, for that matter, as a basis of trading. What I seek to demonstrate is that prices can advance with only moderate setbacks, much further than they have advanced in the recent recovery.

It will be observed that from May, 1904, to December of that year stocks advanced, with only moderate reversals, from 93.55 to 119.46, the maximum reaction in the five months being a little over two points. The rise since the low of February, 1908, to date, measured by the same twenty rails on which the above chart is based has been from 86.04 to 102.24, an advance of about 16 points as compared with 26 points in 1904. Figured on a percentage basis the recent advance is slightly increased, but this is more than offset by the fact that we are now working up from a lower basis and that we are also working up after a more extended decline than that of 1903. The percentage of recovery is therefore much smaller.

I will reiterate the statement that this chart and the comments thereon are not offered as a guide to future movements. These possibilities must be determined by a careful examination of conditions and by future developments, either probable or actual.

The General Situation.

From my own correspondence and the statements of reputable trade journals I find continued improvement in the general business prospects. The word "prospects" is employed advisedly, as the rehabilitation is not materially shown by the tangible improvement. Collections are much better and the bond market reflects a great expansion in the movement of funds seeking investment. We are also assured of some relief from the perennial money stringency in the crop-moving period, but in my opinion the measures adopted so far are inadequate. However, it is a step in the right direction. Money need not trouble us at present, at any rate. Personally, I have paid little attention to political influences as a market factor, believing that such influences are dwarfed into insignificance as compared to our crop prospects and money conditions. So far as this component goes, however, the Wall Street contingent seems to have settled it in their minds that Mr. Taft is to be the Republican nominee and that he is, to use Mr. Jacob Schiff's expression, "Safe and sane."

While there is no marked revival in the iron and steel business as yet, the future looks bright. So competent an authority as Mr. Carnegie states this week that business is holding up satisfactorily and that he expects a swift revival in the fall.

Copper metal looks better and an advance in this commodity will be the signal for general improvement in the base metals.

The Technical Situation.

The technical situation is rather difficult to follow just now. There has unquestionably been some distribution by large holders and if these sales were passing into public hands I would feel a little fidgety about the temporary outcome, but the heavy profit-taking sales are not offset by public buying and we are bound to infer that a great submerged interest is still accumulating stocks. These stocks are going somewhere, and if they are not in the margin accounts of brokerage houses they must be in strong hands. This is very favorable to market action for the long pull. This class of buyers do not pick up stocks with the idea of selling at a loss. There is another phase to the situation, however. If the master minds are at work they may deem it expedient to rid themselves of their undesirable followers and at the same time gather in a few more good things at lower prices. Such a break as this would be quick, sharp and soon over. It need not disturb anyone who provides decent protection for his trades. When the present accumulators see fit to sell out and await a material recession the declines will be long-drawn-out and of considerable proportions, and it will be accompanied by a beautiful blue atmospheric background. Such a reversal might not occur for six months; it might begin to-morrow. There are no signs of it as yet, and I will do my best to anticipate it. Taken altogether, the technical situation is still strong.

Crop Conditions.

Crop prospects continue very favorable. There is excessive moisture in some sections of the winter wheat belt, but the promise of a large crop continues good. In the corn belt, plowing is being retarded somewhat by rains, but no harm has been done so far and ground conditions will be excellent if we get sunshine for a few days. Oats are doing well and cotton and fruit also promise a large crop.

Crop conditions are important enough to warrant the most rigid scrutiny, and it is too early to offer any definite opinion, but so far we have the best prospects of a decade.

Conclusion.

Continue to recommend purchases of good stocks at this level on the scale order principle. For immediate results I still like the active industrials, such as Amalgamated and Smelters. In the high-priced dividends, Atchison and Pennsylvania are attractive. They may not move so rapidly as the so-called leaders, but the factor of safety is greater. In the low-priced rails I like Chesapeake & Ohio, Texas & Pacific and Denver & Rio Grande. The Gould group should do better.

In regard to the matter of providing ample margins I would like to inject a personal word.

From my recent correspondence it is very gratifying to note that most of my clients have been able to make money so far this year. The majority seem to be following careful and conservative lines, but a considerable number are overdoing the thing. In the last twenty years I have had unusual opportunities to observe the methods of speculators, and I can say positively that the man who risks everything on a ten per cent. margin will go broke in time, just as sure as the Lord made little apples. Of course, when I give a bit of advice on a certain stock I do not expect a ten or even a five per cent. margin will be necessary and I try to be very careful. Only once in the last eighteen months such a margin has been necessary on the opinions offered in these advices, but that once is enough to put the plunger out of business. On the other hand, an adverse movement does not disturb the wise trader and is, in reality, an opportunity to average his line and thus hasten a profitable conclusion. As has been said, I try to be very careful. I maintain an expensive statistical department under the direction of a very able statistician, and every report or bit of news is gone over with a fine-tooth comb. But even with these elaborate precautions I will be wrong sometimes or accidents which no man could foresee will happen. On Monday of this week a gentleman told me that in February, 1908, he began following these letters with a capital of one thousand dollars and that he had made eight thousand. I told him frankly that he had made entirely too much and that if he pursued his present methods he was absolutely certain to lose all.

I will apologize to my friends who do not need such advice as that offered above for occupying space with the remarks. The necessity of frequent warnings of this kind will be apparent to all. The ultimate end of all speculation is to make money and keep it and if it is not done right we won't keep it. An advisor must feel a sense of responsibility in this matter, and besides if my clients lose their money they can't pay for my letters. I naturally dislike to enter into academic disquisitions, but if a little scare now and then will save even one man from disaster, it is worth while.

May 23, 1908.

As the crop conditions are the most salient factor at present it is of interest to note the comparative value of the products of the soil. There is some confusion of ideas on this subject, and as we follow the different crop reports from time to time the relative importance of different wealth producers should be clearly appreciated.

The following table gives the crops of 1907, both in quantities and money value, in the order of their importance. The figures were secured from the Department of Agriculture at Washington.

Commodity.	Quantity.	Value in dollars.
1. Corn	2,553,732,000 bu.	$1,350,000,000
2. Hay	61,420,000 tons	660,000,000
3. Cotton	13,510,000 bales	650,000,000
4. Wheat	625,576,000 bu.	500,000,000
5. Oats	741,521,000 bu.	360,000,000
6. Potatoes	292,427,000 bu.	190,000,000
7. Barley	147,192,000 bu.	115,000,000
8. Tobacco	645,213,000 lbs.	67,000,000
9. Sugar, molasses and syrup	......	64,000,000
10. Flaxseed	25,420,000 bu.	26,000,000
11. Rye	31,566,000 bu.	23,000,000
12. Rice	21,412,000 bu.	19,500,000
13. Buckwheat	13,911,000 bu.	10,000,000
14. Hops	48,330,000 lbs.	5,000,000

It is my opinion that in the above tabulation cotton should really be placed second. The secretary does not consider the value of the seed in his estimates, and cottonseed is certainly a part of the cotton crop.

In 1907 the seven cereal crops of the United States amounted to 4,349,000,000 bushels, five per cent less than the preceding five-year average, but the value in dollars was $2,378,000,000, which is about 23% above the five-year average.

Corn is king, of course. Although the cereal does not enter into our direct exports very heavily, we must figure that hogs, hams, lard, etc., are partly corn. In this regard I cannot do better than to offer the expressed views of the Secretary of Agriculture in commenting on the 1907 crop:

> "Four-fifths of the world's production of corn, as nearly as can be determined, grows in the United States, and in the world's international trade in corn this country contributes one-third to one-half of the exports, not including the products of corn-fed animals.
>
> Corn is the chief of crops and exceeds every other prominent agricultural factor of national prosperity. It is a human food, and more especially a live-stock feed, with striking results. It is one of the great motive powers in the food of an energetic age. The starch of corn becomes the fat of the hog and the "finish" of the steer. No meat products are so much in demand in international trade as animal fats and oils. The value of these is more than one-half of the value of all exports of meat animals and packing-house products from this country. It is from four-fifths to nine-tenths of the value of these exports to Germany, to Italy, and to Norway and Sweden,

and from two-thirds to four-fifths of these exports to France, and nine-tenths of these exports to Austria-Hungary, Denmark and the Netherlands.

Fears of a failure or a large degree of failure of the corn crop this year diminished after midsummer and at last the harvest secured 2,553,732,000 bushels, a production that is almost exactly the average of the crops of the preceding five years. There have been three larger corn crops—those of 1899, 1905 and 1906.

In value the corn crop of this year is much above the high-water mark of 1906. On the assumption that the crop will be sold by farmers at an average price not below the present one, its value is estimated to be $1,350,000,000, or 26 per cent. above the average value of the previous five crops. Four crops before had exceeded one billion dollars in value.

The farm value of the corn crop of eight such years as 1907 would pay for duplicating every mile of steam railroads in the United States and pay for their costly terminals, rolling stock and all property. In thirteen years it would replace the present banking power of this country in banking capital, surplus, deposits and circulation, and in seventeen years it would replace the banking power of the world."

As compared with the seven cereal crops with a money value of $2,378,000,000, our mineral and other resources will run about as follows:

Minerals—Metallic products (1906)	$886,110,856
Minerals—Non-metallic products (1906)	1,016,206,709
Minerals—Unspecified (1906)	200,000
Total mineral production	$1,902,517,565

These figures are furnished by the United States Geological Survey and cover the calendar year of 1906. Undoubtedly the production of 1907 may properly be placed at two billion dollars. Among the principal items forming the above total production for 1906 are:

Metallic:	
Pig iron	$505,700,000
Copper	177,595,000
Gold	94,373,800
Silver	38,256,400
Zinc	24,362,668
Non-metallic:	
Bituminous coal	$381,162,115
Clay products	161,032,722
Pennsylvania anthracite coal	131,917,694
Petroleum	92,444,735
Stone	66,378,794
Cement	55,302,277

Another important item of our national wealth is the value of farm animals. According to government figures for 1907 this was $4,423,697,853.

The production of lumber from our national forest reserves for 1906 amounted to $621,151,388.

The Department of Agriculture estimates that besides the crops there were also farm dairy products which approximated $800,000,000 in 1907—a value greater than for any crop except corn and equal to one-third of the value of all cereals. Also that the animals sold from farms and slaughtered on them in 1907 were worth about $1,270,000,000, nearly twice as much as the value of the cotton crop.

The General Situation.

There is evidence of steady improvement in business conditions. This rehabilitation is not immediately evident to casual observers. Those who scratch below the surface, however, see the real evidences. True, there is no improvement in the idle car situation and railroad earnings are not enthusiastically received. Our exports also show a falling off as compared with April, 1907, but the imports are also lower, and the total trade balance looks very favorable. The figures are as follows:

Exports and Imports of Merchandise for Month of April, 1907 and 1908.

	April, 1907.	April, 1908.
Exports	$157,451,781	$133,470,333
Imports	129,554,075	87,481,258
Excess of exports	$27,897,706	$45,989,075

Exports and Imports of Merchandise from July 1, 1907, to April 30, 1908, as compared with Corresponding Period in Preceding Year.

	1907.	1908.
Exports	$1,608,351,880	$1,631,906,085
Imports	1,195,399,104	1,018,345,740
Excess of exports	$412,952,776	$613,560,345

It will be observed that while our exports have fallen off slightly in April as compared with 1907, the ten-month period shows very favorably. We are spending less money for silks, automobiles and diamonds.

In spite of a lack of statistical evidence of radical improvement there is unquestionable promise of betterment in steel and iron, textiles and manufactures generally. The copper situation is especially promising. Of course, we all understand that in speculating on stock prices it is the promise of the future

and not the statistical exhibits of the present which is to be considered. Personally I pay more attention to the views offered by my clients in different localities than to the published views of financial writers or interested individuals.

I look for a healthy improvement in business conditions unless a crop disaster occurs.

The Technical Situation.

The technical situation has fluctuated considerably this week. It was weakened somewhat in the early days of the period, but the recent decline has induced some short selling, and at this writing the professional technical situation looks quite strong. There is, however, an inclination on the part of large operators to check the advances and encourage the shrewd professionals who have traced their operations and deduced their motives too closely. Too much company is a dangerous factor in this business.

Crop Conditions.

Crop conditions continue good. There is too much rain in some portions of the corn belt, but no serious damage or delay has occurred. So far as can be judged the conditions on June 1 will be much above the ten-year average for that date.

Conclusion.

In my telegram of May 18 I advised my clients that a reaction would probably occur this week. I would like to have it understood that this expression does not brand me as a bear. My reasons for the reversal were wholly technical. I feel sure this market will continue to seek a higher level after the present temporary halt is over, but after a successful campaign of several months when I see danger signals I am willing to make an error on the side of prudence. In this case things turned out all right, but, of course, I might have been wrong.

The situation at present is somewhat mixed. I will give the technical situation the most rigid scrutiny and wire at once if there is good reason to resume our bullish position at any time; meanwhile it is better to keep out of the market for a few days. Short selling is very dangerous. On the other hand, we can buy such stocks as Atchison, Pennsylvania and Northern Pacific fearlessly, provided we are willing to put up ample margins, average on declines and exercise patience if necessary. The straddles recommended in my letter of May 20 are also looking all right. They are as follows:

Sell Smelters and buy Amalgamated.

Sell B. & O. and buy Atchison.

Sell St. Paul and buy Pennsylvania in equal amounts.

I think I will amend this a little and say, "Sell St. Paul and buy Northern Pacific."

I understand thoroughly that when a man pays for stock market advice he wants something positive rather than to be told to sit down and twiddle his thumbs; but there are times when the fundamental situation and the technical situation clash in such a manner as to make immediate movements highly problematical. We are in one of these periods just now.

May 30, 1908.

So much interest centers at present in the question of railroad earnings and their immediate effect on stock prices, I have prepared the following chart, showing movements of stock prices and earnings in 1893-4, 1903-4 and 1907 to date.*

This chart shows plainly the precession of stock prices, and the fact that stocks can, and usually do, go up while earnings are declining, and vice versa. The figures given are based on the earnings of 100 roads by months and stock prices are based on the Wall Street Journal's average prices for twenty railroad securities.

Extended comment is not necessary. The chart speaks for itself. The most forcible illustration is that of 1903-04, in which period we find stock prices moving directly in opposition to earnings for considerable periods.

The General Situation.

There is open evidence of business improvement in some important quarters this week. This is particularly emphasized in the iron and steel business. Sentiment in this quarter is growing quite optimistic, and some booking is being done. Rogers, Brown & Co., one of the large pig iron concerns, offer in their weekly review of May 23 the first emphatic expression of belief in improvement I have seen recently from that concern. As steel and iron are good barometers of general business and as the house in question is conservative and fully competent of passing an opinion, I give a few brief extracts from the letter mentioned:

New York:

"A decided and sudden change has come over the market. . . . One large southern furnace interest alone reports sales of over 60,000 tons last week, and the scattered business East and West in lots of 500 to 1,000 tons and upward total up a greater tonnage than any week since the market decline began. The further inquiries from pipe and car wheel makers and leading concerns in machinery and agricultural implements promise further activity and sales of a still larger tonnage before the month is out.

"Reports from every market in the country are unanimous in stating that buyers believe we have seen the worst of conditions,

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* This chart appears on page 41 of the Book of Charts issued in connection with this volume.

and while we may 'scrape along the bottom' for a while longer, the factors making for improvement will gather force from now on. Money is piling up and looking for investment; bonds are more readily salable, and there seems to be daily more hope of the railroads coming into the market. Crops are reported to show better condition than in any previous years for eleven years at this time of the year, which alone will warrant the leading railroad managements in preparing to place orders for new equipment and to commence repairs on the large number of cars and locomotives that have been standing idle on their sidetracks for some months. Even those who predict still lower prices for pig iron admit that if such further declines do come they are not likely to last very long."

Cincinnati:

"Better feeling has been manifest in the pig iron market all through the week, the last day or two being particularly bright with good inquiries and sales of fair tonnage. Some grades are positively scarce and prices on these have firmed up, with some furnaces refusing to even quote on 4 Foundry and Gray Forge. These last seem to be in best demand and have been strong for several days."

Philadelphia:

"Within the past week there has been a very great increase of inquiry, ranging in lots of various sizes from a carload to 5,000 tons and covering practically every grade and variety of iron. This recent inquiry differs from what we have had for some time past, in that buyers are now disposed to cover for a longer period."

Pittsburg:

"The pig iron market during the past week showed a marked improvement, in that orders and inquiries for large tonnages and extended deliveries were more numerous. This is, no doubt, due to the fact that some buyers are satisfied that prices have reached the bottom and are taking advantage of prevailing quotations for their future requirements, rather than buying from hand to mouth, which has been the policy heretofore."

Boston:

"Inquiry for forward delivery is improving and a more normal sentiment prevails among the buyers of this district."

Buffalo:

"A pronounced and very sudden change has taken place in the attitude of the trade toward pig iron purchases, but there is still a great deal of timidity and questioning on the part of buyers. The tonnage under consideration for prompt or early delivery will work a very considerable reduction in stocks on hand at local furnaces, should buyers and sellers get together."

St. Louis:

"The better feeling which has existed for several weeks in the iron trade has been emphasized during the past few days. A lively

interest is shown in iron for the last half of the year, and although a large majority of consumers have not entered the market, there is a noticeable increase in inquiries. . . ."

The re-employment of labor in many lines is also prima facie evidence of improving trade conditions. Money continues plentiful and in spite of our continued gold exports there is less to fear in the way of stringency this fall than for several years. The interest and dividend disbursements of June 1 will be about four million dollars greater than on the corresponding date last year. That money is seeking investment freely is shown by the quick market for new flotations. In my opinion neither the gold exports nor the success or failure of the miserable subterfuge for a currency bill need be given serious consideration.

It will be understood that in speaking cheerfully of improvement, present and prospective, in general conditions, I do not offer any prediction of an immediate rehabilitation. The advance will be gradual; it is better that it should be gradual. There is also some danger in the situation. We cannot afford to have a crop failure this year. This is the most important factor of all and should be given careful scrutiny at all times.

The Technical Situation.

The technical situation just now is a peculiar one. It cannot be called strong by any means. The break in the market has cleaned out some weak bull accounts, but these have been supplanted by the purchases of that large class of marginal operators who "wait for a reaction" on which to buy. Some of this buying is of a good character, but a considerable portion of it is poor.

I have been at considerable pains to examine this factor carefully this week and find that there is more poor buying on these dips than at any time in several months.

In order to clearly understand the position of the market under such circumstances as are outlined above, the following facts should be considered:

Seventy-five per cent. of the speculative contingent do their buying on reactions. The master manipulators know this full well and they realize that when distribution is advisable they must bid the market to higher figures than they have any hope of obtaining. If a considerable line is to be sold at an average of say $100 per share it is usually necessary to begin selling at 110 or 120. When prices have dropped from 120 to 110 it is quite attractive to the speculative observers. Most of them pay no attention to values, or technicalities or anything else except the fact that the stock has reacted. And while it looks like a mighty good proposition at 110, it will look rotten if it sinks to 100. The logic of the speculator is not very consistent. This element will sell out at 100 and the original operators will take back the stocks. This statement is not a theory; I have seen it occur again and again.

In the above remarks I do not mean to give credit to manipulation for the long swings in stock prices. The factor is much over-estimated. Manipulation is employed now and then to depress prices just before accumulation begins or to advance them when distribution is advisable but is seldom resorted to except at the beginning or end of a movement. Of this more hereafter.

There is always a chance that this technical weakness will be overcome by inherent strength or by one of those inexplicable changes of sentiment that occur now and then. I am watching it very closely.

Crop Conditions.

There is no material change in prospects since my weekly crop letter of May 28. Damage is spotted and not serious. We will get good crops all around if no accident occurs. The most favorable factor in the situation is the comprehensive nature of the good prospects. Everything from corn to fruit promises well so far, but, of course, it will be several months before we are out of the woods, and I cannot too strongly impress on my readers the necessity of keeping a wary eye on the crops. In order to give a clear view of the effect of rain, drouth, etc., on crops I am arranging for a leading expert to prepare a special letter on the subject. I hope to have it ready next week.

Conclusion.

It may appear rather strange to my clients that I have been blowing hot and cold recently. That is to say, opinions and figures have been offered showing decided improvement in general business and sentiment and at the same time no advice is given to buy stocks. This is due to the change in the technical situation and it should be understood that the trouble may be cured at any time. I would personally prefer to buy stocks a point or two higher with the atmosphere clearer than to take chances at present.

Another point to be considered is that these tangible evidences of improvement in business affairs have already had their effect on stock prices. Far-seeing men bought stocks several months ago in anticipation of just such improvement. Now that it is sticking out plainly it has ceased to be speculative.

We have been hearing a great deal about manipulation since this little break began. Writers who ought to know better are actually perpetuating their lack of knowledge by printed statements that the entire advance of the year has been due to manipulation. The greater part of the advance was due to entirely natural causes. It appears that the average observer considers it absolutely necessary to attribute every movement to some artificial cause or causes. In refutation of this we can examine the line of crop production as compared with stock prices for thirty years or more and find that with the exception of 1896, the lines follow each other so faithfully that they can almost be superimposed. I admit the potentiality of

manipulation at times and it is all right to watch the schemers carefully, but manipulation does not play a part equal to ten per cent. of any general movement up or down.

It is my opinion, subject to immediate reversal, that the best thing to do at present is to act as an observer. Those who wish to accumulate stocks on the scale order principle with good margin provisions, may do so fearlessly. For such accumulation I prefer such stocks as Atchison, Pennsylvania and Northern Pacific. In the cheaper stocks Denver & Rio Grande looks very attractive and good opportunities may be found to pick this stock up on sympathetic weakness when the more active Gould stocks break. Denver & Rio Grande is in no wise affected by the Wabash-Pittsburg affair. I think Missouri Pacific may also be picked up under fifty with ultimately good results, but would not choose it as the best bargain.

In the industrials Amalgamated looks very cheap. In spite of this security's bad record it offers the best chances in the group.

June 6, 1908.

In the several items of news which have appeared during the week only one is important enough in its bearing on stock prices to warrant extended comment. I refer to the reduction in prices of certain steel and iron products. The reduction in bar steel was considered quite properly as an advance guard of other reductions in these products and for some reason which I cannot analyze, such reductions, actual or prospective, were considered bearish factors on railroad stocks. We find from recent railroad reports that the corporations are getting control of their expenses and in many important instances net earnings are showing well in the face of decreases in gross, and when we stop to consider the advantage which would accrue to railroad corporations through a decline in steel and iron we find that they are benefited not only in perennial purchases for maintenance, but in purchases for projected extensions. So far as the direct effect of the reductions on the securities of steel and iron corporations is concerned, it is my opinion that they can take care of themselves and that temporary losses from lower prices will be offset by stimulation to general business. The ultra-pessimistic are predicting that the cut in wages which will follow reductions in iron and steel products under the scale agreement effective July 1, will cause trouble, but I will predict that even if the Amalgamated Labor Association grumbles a bit, they will live up to their schedule.

In order to show the effect of reductions in iron and steel prices in periods of recession, I have prepared the following chart, * using

* This chart appears on page 50 of the Book of Charts issued in connection with this volume.

pig iron prices as a barometer of steel and iron and United States Steel common as a barometer of stock prices during the years 1903 and 1904.

The anteriority in stock price movements would have been much more pronounced if prices of railroad stocks had been considered, but the chart, as it stands, shows that even in the years 1903-1904, when the Steel Corporation was an unseasoned affair and when its stocks were much discredited, important swings in either direction preceded the changes in the metal.

According to the "Wall Street Journal's" barometrical figures lowest prices for railroad stocks were reached on September 28, 1903, the price at that time being 88.80. Pig iron declined for some time after September 28, and when the metal had dropped to $22 in February, 1904, railroad stocks were up to 95, and later, when the extreme low prices of pig iron were reached in June, 1904, the rails were at 97.30. This supports the theory that reductions in steel and iron prices are not bearish influences in rails.

The General Situation.

The general situation continues very promising. From my private correspondence I get almost unanimous statements of good business prospects. I am not speaking of the improvement already demonstrated but of future indications, which are the all important things so far as speculation is concerned. There is marked improvement in lumber and anthracite coal, but not so much in live stock and soft coal. The boot and shoe business, which is considered a pretty good barometer, is improving and there is renewed activity in the building trades.

There has been some bear talk in regard to the possible $68,000,000 fine to be levied on the Standard Oil people for rebating. It is certainly drawing the long bow to assume that the corporation will be found guilty on all counts or that the maximum fine would be levied if they are. Aside from this the elimination of this rebating practice is a bull factor on railroad stocks.

The political situation is much discussed, and no doubt this factor has a deterrent effect so far as investment is concerned. Personally I pay little attention to the subject, as no paramount issue is involved. Mr. Taft has made some unfortunate blunders recently, and Wall Street is a little disappointed at his lack of tact, but if wheat and corn turn out well stocks will advance regardless of any politician's verbosity.

The general situation looks all right and a steady and gradual rehabilitation is to be expected.

The Technical Situation.

This week I have given particular attention to this phase of speculative probabilities. While the situation varies from day to day owing to the operations of a large number of traders who have decided not to take any fixed position for a few weeks, it may be said

that on the whole the technique is strong. There is a disposition on the part of large operators who have been accumulating stocks for several months and who sold a portion of their holdings about the middle of May, to check rapid advances. This is natural and logical. The only way stocks can be accumulated to advantage is on declines or in weak sessions. The appearance of weakness also helps to build up a short interest.

Aside from day to day switching mentioned above, I find the great underlying technical situation very strong. Stocks have been removed from the street in large quantities by the leaders, and public buying for cash has been extensive for several months. The floating supply of stocks is very small, and a few of the cash holdings are for sale at this level.

Crop Conditions.

Crop conditions and prospects continue most favorable, and it is probable that the government report next Monday will be a stimulating document. Private advices are unanimously cheerful. Authorities state that spring wheat conditions are ideal, and while there are still some complaints of delay in planting corn in certain localities, the planting and plowing are both ahead of the ten-year average. Ground conditions are excellent.

While this is eminently satisfactory, we must not forget that crops have still a critical period ahead of them. The conditions should be given careful attention as we progress.

I have prepared the following table in order to give a complete basis of comparison with the different state and government reports as they appear.

MONTHLY CONDITION OF THE CROPS IN THE UNITED STATES SINCE 1894.

(Compiled from reports of the Department of Agriculture.)

	WINTER WHEAT				SPRING WHEAT		
Year	April	May	June	July	June	July	Aug.
1894	86.7	81.4	83.2	83.9	88.0	68.4	67.1
1895	81.4	82.9	71.1	65.8	97.8	102.2	95.9
1896	77.1	82.7	77.9	75.6	99.9	93.3	78.9
1897	81.4	80.2	78.5	81.2	89.6	91.2	86.7
1898	86.7	86.5	90.8	85.7	100.9	95.0	96.5
1899	77.9	76.2	67.3	65.6	91.4	91.7	83.6
1900	82.1	88.9	82.7	80.8	87.3	55.2	56.4
1901	91.7	94.1	87.8	88.3	92.0	95.6	80.3
1902	78.7	76.4	76.1	77.0	95.4	92.4	89.7
1903	97.3	92.6	82.2	78.8	95.9	82.5	77.1
1904	76.5	76.5	77.7	78.7	93.4	93.7	87.5
1905	91.6	92.5	85.5	82.7	93.7	91.0	89.7
1906	89.1	91.0	82.7	85.6	93.4	91.4	86.9
1907	89.9	82.9	77.4	78.3	88.7	87.2	79.4
1908	91.3	89.0					

Year	CORN. July	Aug.	Sept.	Oct.	OATS. June	July	Aug.	Sept.
1894 . .	95.0	69.1	63.4	64.2	87.	77.7	76.5	77.8
1895 . .	99.3	102.5	96.4	95.5	84.3	83.2	84.5	86.0
1896 . .	92.4	96.0	91.0	90.5	98.8	96.3	77.3	74.0
1897 . .	82.9	84.2	79.3	77.1	89.0	87.5	86.0	84.6
1898 . .	90.5	87.0	84.1	82.0	98.0	82.3	84.2	79.0
1899 . .	86.5	89.9	85.2	82.7	88.7	90.0	90.8	87.2
1900 . .	89.5	87.5	80.6	78.2	91.7	85.5	85.0	82.9
1901 . .	81.3	54.0	51.7	52.1	85.3	83.7	73.6	72.1
1902 . .	87.5	86.5	84.3	79.6	90.6	92.1	89.4	87.2
1903 . .	79.4	78.7	80.1	80.8	85.5	84.3	79.5	75.7
1904 . .	86.4	87.3	84.6	83.9	89.2	89.8	86.6	85.6
1905 . .	87.3	89.0	89.5	89.2	92.9	92.1	90.8	90.3
1906 . .	87.5	88.1	90.2	90.1	85.9	84.0	82.8	81.9
1907 . .	80.2	82.8	80.2	78.0	81.6	81.0	75.6	65.5

COTTON.

Year	June	July	Aug.	Sept.	Oct.
1894	88.3	89.6	91.8	85.9	82.7
1895	81.0	82.3	77.9	70.8	65.1
1896	97.2	92.5	80.1	64.2	60.7
1897	83.5	86.0	86.9	78.3	70.0
1898	89.0	91.2	91.2	79.8	75.4
1899	85.7	84.8	84.0	68.5	62.4
1900	82.5	75.8	76.0	68.2	67.0
1901	81.1	81.1	77.2	71.4	61.4
1902	95.1	84.7	81.9	64.0	58.3
1903	74.1	77.1	79.7	81.2	65.1
1904	82.0	88.0	91.6	84.1	75.8
1905	77.2	77.0	79.9	72.1	71.2
1906	84.6	83.3	82.9	77.3	71.6
1907	70.5	72.0	75.0	72.7	67.7
1908	79.7				

Conclusion.

I do not alter my opinion that good stocks should be purchased on declines for large profits. There is some little apprehension on the part of timid people about the coming political contest. I do not think it is going to have any material effect on prices. The two principal bugbears are Roosevelt and Bryan, but I am willing to go on record with the prediction that if either of these gentlemen is nominated or elected or if neither of them is, the trend of stock prices will be upward, and that, barring a crop disaster, we will see securities selling higher in a few months. It is most surprising to note that one of the planks which frightens speculators most is tariff revision. It is a matter of fact, easily demonstrated, that tariff revision is a bull factor on railroad stocks. By the way, Mr. Byron W. Holt, chairman of the tariff committee of the Reform Club, prepared a letter for me some weeks ago on the effect of tariff

revision on stock prices. Mr. Holt desired to make some slight changes in his statements and I have accordingly printed a revised edition which will be mailed next week.

Reverting to the matter of politics. There is no doubt but that this influence has some potency to bring about intermediate changes and that it will be offered as an excuse for every little wiggle. We should take advantage of every decline of this character to buy stocks. It is, in the last analysis, a most necessary and desirable thing to have these dips occur. We cannot make much money in a market that scoots right straight up.

Think Atchison, Northern Pacific and Pennsylvania are most attractive in the dividend payers. In the cheap rails I like Denver & Rio Grande and in the industrials Amalgamated Copper.

The movements of stock prices for the month of May are shown in the following chart.* This chart is published monthly as early as possible, and the three months' investments are combined in the quarterly forecasts.

* This chart appears on page 5 of the Book of Charts issued in connection with this volume.

June 13, 1908.

In recent letters I have spoken frequently of the two great conflicting speculative factors which are much discussed at present—crops and politics. I have offered the personal opinion that the factor first named was infinitely the more important. I will even go as far as to say that if the products of the soil bear out their present promise of the largest general crop ever harvested, business conditions will be good and stock prices will advance no matter who sits in the White House and no matter what platform that incumbent represents. There appears to be a widespread idea that stocks should not be purchased on the eve of nominations or elections. In order to show just what has happened in former election years I will offer a series of charts. We will begin with the relation between cereal production and stock prices.

It will be observed that stock prices have followed cereal production faithfully for 25 years, the only exception appearing in 1896. The reason for this specific divergence has already been discussed in these advices, but it may be said briefly that fear as to the stability of our standard of value had discredited us in the eyes of the investment world in that year. We have no such issue now. Monetary silver as a factor is a thing of the past. It should also be noted that the anteriority of stock prices is demonstrated. The total cereal crop is not a known factor until the end of the year, therefore all the stock movements were in anticipation of good crops.

And it will be understood that in speaking of good crops I do

* This chart appears on page 43 of the Book of Charts issued in connection with this volume.

not necessarily refer to bumper crops. We bid fair this year to break all records and to secure high prices for the products.

The charts which accompany this letter * in supplementary form show the movements of stocks in the last nine Presidential years. The movements are based on average monthly prices. I would like to have reduced this to weeks, but the immense amount of work involved in arriving at barometrical figures even by months will be appreciated.

It appears from the charts that we had in four cases advancing prices in Presidential years (1880, 1888, 1900 and 1904). Three years were practically neutral (1872, 1892 and 1896). In two cases material declines occurred from June to November (1876 and 1884).

Intermediate movements of importance occurred in all cases. Many of these movements can be attributed to specific influences other than politics. The crop chart does not go back to 1876, but it may be stated that in that year we had only fair crops. We produced in 1876 289,000,000 bushels of wheat, as against 292,000,000 in 1875; 308,000,000 in 1874, and 364,000,000 in 1877. Corn and oats production were also smaller in 1876 than in any of the years mentioned. In 1884 we made 330,000,000 bushels of wheat as against 383,000,000 in 1883 and 445,000,000 in 1882. On the other hand, in the bull years we had good crops. In 1880 we made bumper crops of corn and wheat, corn breaking all records. The other years can be traced from the chart. 1888, 1900 and 1904 were all good crop years. The statistics of cereal production have been offered in former letters, and it will be found that a careful comparison of this factor with stock movements is very interesting and instructive.

The composite chart shows that in the nine election years examined, money could have been made buying prior to both nominations and elections. It would appear that after the nominations a decline occurred, then a further advance.

It will be understood that the charts accompanying this letter are not offered as a basis for trading. I merely wish to offer statistics to uphold the contention that the widespread idea of election years being bear years from May to November is erroneous, and that other influences are much more tangible and important than politics.

The General Situation.

The general business prospects are very favorable. There is no decided improvement in any quarter over last week, but the reduction in the number of idle cars and the fuller employment of money are favorable signs. In conversation with a number of business men this week several of them stated that they could see little improvement in their respective lines, but they felt sure of a better business in a month or two. The speculative argument adduced by all but one of these gentlemen was that stocks could not go up until business improved. Of course, this is idle reasoning. When business was at its pinnacle in 1907 stocks began going down, but, on the

* These charts appear on page 49 of the Book of Charts issued in connection with this volume.

same logic, they could not go down until business fell off. It is the old story—speculating on the present, which is not speculation at all.

The reduction in steel and iron prices is a bull factor on railroad stocks. At the risk of undue reiteration I will point out that the railroad corporations benefit in many ways by this cut in prices. In analyzing this factor we cannot confine ourselves to the mere ability of the railroads to buy their own materials cheaper, but we must consider the fact that every city in the United States is being practically rebuilt of steel and the reduction in prices will stimulate the building trades and a dozen other lines of business. This means we will go ahead with building and other business ventures.

I think one of the most favorable straws indicating fair winds for corporations is the turning down of Hoke Smith in Georgia. Mr. Smith defeated Clark Howell two years ago because Smith's platform was "down with the railroads." Now after a year of that sort of thing he is kicked out and an unknown man installed. It may be contended that the prohibition laws recently passed in that state were factors in his defeat, but Mr. Smith lost thousands of votes because he was not a Prohibitionist at the time he was elected. Aside from this, prohibition is a brand new thing, and has not been in force long enough to create such dissatisfaction as is reflected in the decisive vote of the people of Georgia.

Mr. Carl Snyder, author of "American Railways as Investments," who is recognized as a most careful student of economics affecting railroad corporations, said to me a year ago that we were nearing the end of the acute crusade, and his words are beginning to prove prophetic.

The general situation is very favorable, but, as has been stated, the advancement is more in perspective than in the present. That's speculation.

The Technical Situation.

The technical situation has been somewhat strengthened this week. There has been a good bit of short selling and the dullness has disgusted the day to day purchasers. The market is in a sold-out condition so far as short-margined commitments are concerned. The more important underlying technical position is very strong. It stands about this way: the large holders of stocks are not worried and they show no desire to dispose of holdings at this level. The smaller holders belong to a wise class. Considering the events of the past year, it may be pretty definitely figured that only wise men have either stocks, or money to buy stocks with. The present holders figure that they are getting good returns on money and that there is also a fair chance of a speculative profit. Money can be borrowed on securities now at 3½%. One of my friends in the brokerage business who carries large amounts of time money informed me yesterday that he could get all he wanted at 3½. Under such circumstances, what object would there be in a man who is carrying such stocks as Union Pacific or Atchison, liquidating? What would he do with his money?

The bearish element is nervous and perturbed. They are placing faith in miracles or politics. If anything very favorable should develop now, or if competitive buying should appear, it would be the devil take the hindmost. A bear is the biggest coward on earth.

The technical situation is such that only moderate and natural declines can be looked for at present and sharp or even violent advances might occur at any time.

Crop Conditions.

There are some complaints of floods in certain districts, but the crop-killers are having very hard work getting up a scare. The opinions of the best trade journals and experts do not reflect serious damage in any quarter. **This question of crops is very important** just now, and I am going to try to get the very best opinions on the subject. Mr. Oscar K. Lyle, one of our leading students of crops and crop conditions, has kindly consented to write the crop letter of June 16, and his ideas are infinitely more valuable than my own.

Conclusion.

I see no reason to alter my view that good stocks should be picked up on recessions. I do not think declines will go very far. In the dividend payers I like Atchison, Pennsylvania and Northern Pacific best. As was stated in the daily letter of June 9, the technical position of Union Pacific is weak, but this will be cured by a decline of a few points. Denver & Rio Grande, and Chicago & Alton are still my favorites in the cheaper rails, and in the industrials I like the coppers, particularly Amalgamated.

June 20, 1908.

Political affairs have naturally occupied the center of the stage this week. The nomination of Mr. Taft seems to be satisfactory to the investment public, particularly the foreigners. The bearishly inclined contend that Mr. Taft is merely a sort of trustee of the present administration policies, which may or may not be true. One thing is pretty certain, however, even if Mr. Taft pursues all the policies and projects of the administration, he will do it in a quiet way, with no trumpets, big sticks or megaphones. It is largely a matter of the temperament of the two men. With Mr. Roosevelt, an impulse sometimes becomes an obsession, and even though the policy he pursued was sound and moral, the noise frightened timid people. It is probable that necessary corrective measures will now be pursued with less of ferocity and exacerbation. Personally I am not a politician, and in discussing the question am looking at it wholly from the stock market point of view. In my opinion, the nerves of capital will not be so shaken in the next few years.

It would be unjust and unreasonable to attribute the panic of 1907 to the Administration. The decline was the result of overstimulation and would have appeared no matter who the White

House incumbent was or what his policies were. It is admitted, however, that some damage was wrought by shooting off fire-crackers under the over-stimulated patient, when he required a sedative.

Next to politics, interest has centered in the dividend cuts in Lake Erie and Western; C., C., C. & St. Louis; Louisville and Nashville, and Republic Iron and Steel. The appearance of this news was the signal for a sharp dip in prices. The speculative public always jump to the conclusion that a dividend reduction in one quarter means reductions all along the line. This is absurd, and we have no precedents to support such silly logic. Aside from this, when retrenchment is necessary, the corporation is better off after they have reduced disbursements to what they can afford to pay, than they are staggering along under a load. If an individual is living beyond his income we lose faith in him from a commercial point of view and we mentally sell him short, but when we see him pruning and saving to meet the exigencies of depressed periods we have confidence in his future. The principle is the same whether applied to this hypothetical individual or to our largest corporation.

The panic of 1884 began early in January; the dividend disbursements of that year were over $93,000,000. In 1885 dividend disbursements were less than $78,000,000, yet from the beginning to the end of 1885 stock prices advanced about 50%. In 1893 dividend disbursements were over $93,000,000. In 1894 they were about $83,000,000, yet prices recovered about 20% after reductions were made, and did not again reach the low prices of 1893 in spite of two crop failures. In 1903 dividends amounted to $197,000,000, and in 1904 (a big bull year) to $221,000,000. In this last case we find an increase, but it may be pointed out that surplus fell from about $100,000,000 in 1903 to $56,000,000 in 1904. This was not the case in any of the other periods consulted. The surplus in 1894, for example, stood at $46,000,000 as against $8,000,000 in 1893.

There is nothing unnatural about this apparent crossing of the currents of stock prices and income return; it represents the anteriority of stock prices—the simplest and most important factor in speculation and at the same time the least appreciated of all factors. After the dividend reductions in the periods consulted had appeared, or were considered inevitable, far-seeing men bought stocks, knowing that necessary retrenchments were being made, weak spots eliminated, labor efficiency increased, economies effected and also that stock prices were low. They bought because the drastic physicking had left the patient weak, but convalescent, and they knew he would soon be on his feet. The same thing applies to our present markets.

The break in the stock market yesterday is, in my opinion, an evidence of the strong position of stocks. This may appear paradoxical, but the theory may be briefly explained as follows:

We are in a period where there is every reason to believe that wise people (and in this class I include the great manipulators) are accumulating stocks. They care nothing whatever about changes of a few points, and as their accumulation goes on they exert their efforts to buy **cheaply.** Nothing could ruin their plans so quickly as an indiscriminate public interest. When these people want to buy stocks they must induce someone to sell what they buy. We can't all work on the same side at once. Also the indiscriminate public interest would weaken the technical position and put a lot of five-point speculators on the long side of stocks. These speculators would sell on the profit-taking principle just when the manipulators were making their market, and also they would be subject to fright through accidents or bear raids.

The following table will be found interesting in following this question of dividend reduction. It may be examined in connection with the large chart of prices sent out some weeks ago:

Dividend Rate on Twelve Leading Rails Since 1889.

	1889	1890	1891	1892	1893	1894	1895
Atchison	0	0	0	0	0	0	0
B. & O.	0	0	0	3¾	5	4½	0
Canadian Pacific	3	5	5	5	5	5	0
Jersey Central	3	6	6½	7	7	7	5½
C., M. & St. Paul	0	0	0	2	4	4	2
C. & N. W.	6	7	6	6	6	3	4
L. & N.	5	6	5	4	4	0	0
Missouri Pacific	4	4	3	0	0	0	0
New York Central	4	4½	4½	5¼	5	5	4¼
Northern Pacific	0	0	0	0	0	0	0
Southern Railway pfd.	—	—	—	—	—	0	0
Union Pacific	0	0	0	0	0	0	0
Average, 12 stocks	2.27	2.86	2.72	3.00	3.27	2.37	1.31

	1901	1902	1903	1904	1905	1906	1907
Atchison	3½	4	4	4	4	4½	6
B. & O.	4	4	4	4	4½	5½	6
Canadian Pacific	5	5	5½	6	6	6	7
Jersey Central	5	8	8	8	8	8	8
C., M. & St. Paul	6	7	7	7	7	7	7
C. & N. W.	6	7	7	7	7	7	7
L. & N.	5	5	5	5	6	6	6
Missouri Pacific	2½	5	5	5	5	5	5
New York Central	5	5	5	5	5	5	6
Northern Pacific	4	5½	7	6¾	7	7	7
Southern Railway pfd.	4	5	5	5	5	5	4
Union Pacific	4	4	4	4	4½	8	10
Average, 12 stocks	4.50	5.37	5.54	5.56	5.75	6.17	6.58

I will add a word of comment as to Mr. Muhleman's letter on gold published June 18. Mr. Muhleman discusses the question from the highest economical standpoint, and, while it is necessary that the points he makes be assimilated if a clear understanding is to be gained, it may be interesting to pursue the matter a little further, so as to the direct effect of our increasing supply of gold on different grades of securities.

To begin with, increasing production of gold means in the last analysis a decrease in the value of the metal. Being a fixed standard of value, gold cannot **apparently** decline, but it does, and the decline is represented by advancing commodity prices. We have had an advance of about 50% in commodities generally in the last ten years. There has been some falling off recently, but this is in the nature of a fluctuation.

Second:—Advancing commodity prices mean higher interest rates—money loaners must contemplate an impairment of the principal because of the shrinkage in purchasing power. In other words, if we loan money to-day at 3% for one year and commodities advance 3% in that year, we receive absolutely nothing for the use of our capital.

The effect on securities is therefore briefly as follows:

1. Increasing gold supply is bearish on bonds or other securities having a fixed rate of income. This includes many preferred stocks.

2. The effect on railroad securities is varied. The rising prices of commodities, materials and labor, with freight rates not rising, or rising more slowly, is a great drawback. On the other hand, all property owned advances in value and this acts as an offset. Railroads owning their own coal and timber lands, etc., are therefore in a favorable position.

3. Increasing gold supply is bullish on the stocks of industrial corporations. The commodities sold advance as rapidly as the cost of production.

4. Increasing gold supply is bullish on all speculative commodities—wheat, corn, copper, etc. This needs no explanation.

It may appear to some of my subscribers that in giving a great deal of space to a discussion of such questions as the increasing supply of gold and the effect of this factor on stock prices, I am getting away from the immediate movements in which they are interested and delving into the remote future. Nothing could be further from the truth, and in the many errors of judgment which cause losses in speculation it is my opinion that this tendency to ignore powerful basic influences is the worst one of all. In my personal experience I have never known a man to succeed by "following the tape" or by slurring over the things which really produce material price changes and, per contra, I have never witnessed an ultimate failure where the venturer made a business of speculation and conducted his ventures in a business-like way.

The speculator who purchases stocks on the theory that fundamentals are of no value from week to week or month to month and that manipulations and tips will pull him out, will lose. Even if his commitments are for only a short time he will be vastly aided by having a secure foundation, which he understands.

The General Situation.

There is little sign of tangible business improvement this week. The prospects, however, continue favorable. It is probably the case that political uncertainty has acted as a deterent to activity in many lines, but, aside from this, there is little reason to expect any immediate or material resumption as yet. In my opinion, it will be September before we witness any commercial enthusiasm. Meanwhile there is gradual but certain betterment of a limited character. This is evidenced by the decreasing number of idle cars and some improvement in the inquiry for steel and iron products. In their last weekly letter Rogers, Brown & Co. speak very encouragingly of the situation. Although not claiming any marked increase in the volume of booking, they state that inquiries are better. The merchandise imports and exports for May show a falling off as compared with last year, but it is interesting to note that while exports dropped $21,000,000, imports dropped $42,000,000. This shows a good balance in our favor and shows that our lesson of economy has been well and quickly learned. Even with the recession in exports our net trade balance compares very favorably, thus:

Excess of Merchandise Exports.

May, 1905	$31,268,145
May, 1906	25,639,190
May, 1907	8,247,462
May, 1908	29,168,170

And for the eleven months since July 1, 1907:

1906.	1907.	1908.
$493,048,132	$421,200,228	$642,657,159

I consider the general prospects very encouraging, barring accidents to crops.

The Technical Situation.

The technical situation is strong. The professionals are quite bearish and there has been a good bit of short selling. There has also been a cleaning up on the part of the weaker bulls who are afraid of politics. The buying on breaks is of a good character and frequently represents accumulation.

On the whole, the market is in a sold-out condition so far as weak long lines are concerned, and there is a tolerably extended short interest which might be punished at any time.

The Crop Situation.

Crop prospects continue excellent. There are the usual scattered damage reports, which are, of course, accentuated by the bulls on cereals and the bears on stocks. My private correspondents in all districts are cheerful and even enthusiastic. So far as we can depend on prospects everything points to one of the greatest harvests in history, and this, together with the comparatively high prices which obtain, is the strongest prosperity note and the most important factor in the situation.

Conclusion.

After the nomination of Mr. Taft the general run of speculators felt enthusiastic. They opened stocks higher and a bull movement would have been quite possible if the rank and file had not been discouraged. The big interests did not have stocks to sell or they would have helped the enthusiasm along for a few days instead of checking it.

If you or I want to buy anything we seek to depress the price, or hold it on an even keel. If we want to sell we whoop it up.

I do not mean to offer the opinion that to-day's action is the end of the recession; it may go somewhat further, but the man who buys on these breaks is taking advantage of manipulative tactics which he could not produce personally and buying stocks at bargain prices under favorable circumstances.

See no reason to change my opinion as yet. I think we may expect a sharp setback in the course of the next few months, and when it appears it will be, as all such shake-outs are, more drastic and prolonged than is generally anticipated. I believe, however, that before this occurs we will have a further marked improvement. In fact, I am basing my conclusions on the idea that some public enthusiasm will be aroused before long; that the matter will be overdone and that the inevitable will happen. This view is, of course, to some extent, guesswork and wholly theoretical, as it is founded, not on basic facts, but on technicalities. I will watch the market closely and try to gauge the approximate top. If I slip up, the holder of stocks may rest assured that any decline at present (unless fundamental conditions change radically) is not a bear market but merely a stage of a bull market, and that a little patience will soon be rewarded.

In the dividend payers I like Pennsylvania, Atchison and Northern Pacific. These stocks may not show so much activity as Union Pacific or Reading, but the factor of safety is greater. This is said without prejudice to the two stocks last named, both of which are cheap.

In the lower-priced rails, I like Chicago & Alton, Chesapeake & Ohio, and Denver & Rio Grande.

Amalgamated looks very cheap in the industrial group.

June 27, 1908.

As 1908 is the year following a panic, it is interesting to note the movements of stocks in other after-panic years. In order to show this graphically I have arranged the series of charts which accompany this letter.*

In 1874, following the panic of 1873, we had a declining stock market. Both 1873 and 1874 were poor crop years. Railroad earnings were small and the Granger laws affected sentiment adversely.

1878 was a bull year. We had good crops and large railroad earnings.

1885 was another good crop year. Railroad earnings were small and there were many dividend reductions, but the stock market made a great advance.

1894 was a neutral year. Crops were also neutral, a corn crop failure being offset by large wheat and cotton crops.

1897 was a bull year, with great crops and good railroad earnings

1904 was a bull year, with immense crops and big railroad earnings.

I do not pretend to offer these charts as a basis for trading. I don't believe in mechanical speculation, but the matter properly examined will prove interesting and instructive.

We find that in the six periods considered. four after panic years were years of advancing prices (1878, 1885, 1897 and 1904). One year (1874) was a year of declining prices, and one year (1894) was neutral. In every one of the bull years we made immense crops; in the single bear year we had a crop failure, and in the neutral year we had a partial crop failure.

The general conditions in the after-panic years were the same in all cases and are the same to-day, i. e.:

Large bank reserves.
Low interest rates.
Depressed business.
Increasing exports, and Decreasing imports.

In no case were the low prices of the panic year reached in the succeeding year.

In view of our good crop prospects, 1908 may be compared tentatively with 1878, 1885, 1897 and 1904. Of course, we have political disturbances now, but I have already shown by a series of charts that presidential years have in the past been bull years in a majority of instances.

One thing which should be given most careful consideration is the fact that no matter how good a year may be, nor no matter how far the market may advance in that period, we are bound to have reversals. In the charts offered, I have ignored all small changes of a point or two, but even when these are

* This chart appears on page 32 of the Book of Charts issued in connection with this volume.

omitted we invariably find some material declines. I will venture to state that in the best year of the six (1904) many people began buying early in the year and made no money. This was because of bad methods. I insist that if proper methods had been employed in the neutral year (1894) buying on declines, providing ample margins and averaging commitments, the year could have been made a profitable one. There is much food for thought on this phase of the subject.

The General Situation.

There is more evidence of improvement in general business than I have noted in several weeks. In the steel and iron business we find that steel bars are moving rapidly. In the past ten days between 400,000 and 500,000 tons of steel bars have been sold. This improvement is not reflected in other lines of finished steel, but these things usually improve by a process of rotation, and we may expect better things a little later.

There is also some increase in the employment of labor. About 3,000 men have been put to work on the Erie and about 800 men in the shops at Buffalo, Rochester and Pittsburg. Altogether we count about 5,000 men re-employed in the western part of Pennsylvania.

The decrease in idle cars is also prima facie evidence of improving traffic.

The Technical Situation.

The technical situation is good. There is a scarcity of floating stocks and the public long interest is well entrenched financially. Very few marginal accounts are found in a weak condition. The professional traders are quite bearish and sell freely on bulges. The market is too dull and narrow to attract a large volume of business from any quarter, but so far as it goes, the present technical situation favors the bulls.

Crop Conditions.

There has been some little complaint this week from one or two quarters. In some localities rain is needed and in others too much rainfall is reported. Damage, however, is spotted and not serious. The Kansas crop report showing a condition of 73 was looked upon as a bad document by some observers, but it will be remembered that on June 1, 1907, the condition in that state was 60.

Replies from 600 correspondents of the "Galveston-Dallas News" show cotton acreage in Texas 102.8 and condition 107.1 as compared with last year.

Weather conditions have been generally favorable for corn planting and cultivation.

The "Wall Street Summary" of June 25 has an interview with a traffic official of the New York Central. He said: "Fruit crops of the northern frontier and middle territory of this state were never so good as this year, and in consequence of this, perishable freight traffic along the company's lines promises

to surpass the previous best in the company's history. During the year 1907 there was handled by the company 36,595 freight cars, and officials of the company feel very confident that the number handled this year will be considerably larger."

Private reports from all sections are in the main encouraging and it is probable that we will have a very favorable government report on July 8.

Conclusion.

See no reason to alter my position as yet. Fundamentals are sound and the future promises well. There is an unquestionable desire on the part of certain important individuals and institutions to purchase good stocks around this level for the very simple reason that money cannot be employed elsewhere to so much advantage. It goes without saying that when a man wants to buy any form of property he seeks first to depress the price. There appears to be some confusion of thought on this phase of the subject. I have had several letters recently inquiring why the market should sag if the buying is good. A little reflection will show that the first aim of a large purchaser is to buy as cheaply as possible, and where manipulation is resorted to it is for the purpose of depressing the securities wanted, or at least to keep the price from running away. Of course there is an end to this sort of thing and the final result is an advance. In my opinion there has been a lot of this kind of work in the last few months. In one case a prominent individual has made several pessimistic speeches about poor crops, etc., and it is pretty certain he and his following have been buying stocks.

If the market keeps within reasonable bounds we may escape any severe setback for several months. If, however, some public enthusiasm is developed it will probably be checked. The public are not in the market to any extent now and they are not wanted there at present. The powers that be don't care for company or competitive buying. They welcome the public at the top of a movement and they usually find them there.

Continue to recommend purchases of good stocks on all declines. Northern Pacific looks better than Great Northern for the present. Union Pacific would be cheap on an 8% dividend basis, and Southern Pacific would be cheap on a 4% basis considering the price of money. Pennsylvania does not show so well from an income return basis, but the stock is in excellent physical and financial condition and is a prime security at these prices. Atchison is also a bargain.

In the low-priced rails Denver and Rio Grande, Chicago and Alton, and Chesapeake and Ohio look attractive on declines. In the industrials I like Amalgamated best. Steel common is worth much more than its current price and it may be picked up on breaks regardless of possible tariff revision.

July 4, 1908.

It is probable that in the near future we will have some scattered labor troubles, strikes, etc., and this factor will be magnified and exploited to the limit by professional bears. It is therefore thought that an investigation of the effect of such disturbances in the past will prove interesting.

In order to get a complete showing I cast about for a man who had made a study of this particular factor, and found him in Mr. Henry Hall, author of "How Money is Made in Security Investments." Mr. Hall kindly agreed to give me an opinion, and his opinion is illustrated by a series of charts issued as a supplement to this letter.* His views are as follows:

With the growth of labor unions, strikes have become increasingly prevalent in the United States, and they now number between 2,500 and 3,500 a year, involving from 300,000 to more than 600,000 workmen and operatives. In any consideration of the effect of strikes upon the stock market, the vast majority may be disregarded entirely. They all entail waste of time and money both upon Capital and Labor; but most of them are purely local and confined to few companies or establishments, and it cannot be said that they have any noticeable influence upon the prices of corporate securities. The only strikes worth considering are occurrences similar to those of the revolt of the soft coal miners in 1894 and 1897, when 150,000 men went out in each case; the Pullman strike in 1894, when an effort was made to boycott the use of palace cars upon many railroads; and the Homestead strike and riots in 1892. The years of great strikes are shown in accompanying charts.

In a general way, it may be said, with confidence, that while serious strikes always affect earnings to some extent, during the event, they seem to play a somewhat inconspicuous part in stock market movements. Some of them are brought on, in bad years, by the necessity for retrenchment of corporate expenses, and they have more than once probably tended to aggravate the pessimism of the hour and accentuate the decline in stocks. But they are usually short lived. When they fail, the position of the corporate interests against which the strikes were directed has always been greatly improved. And the real influences which dominate the stock market in any given year are of such overwhelming force, that as an almost invariable rule they override the influence of strikes, and carry stocks either upward or downward almost regardless of the unrest in the ranks of labor.

The years selected as a test of the influence of strikes are as follows:

1877.—Strikes on the Baltimore & Ohio, Erie, New York Central, Pennsylvania and Reading roads, with a great riot in

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* These charts appear on page 42 of the Book of Charts issued in connection with this volume.

Pittsburg, mostly in July. There had been a slow decline in stocks for two years, owing largely to trunk line wars, Western granger laws, and various receiverships; and the collapse of a trunk line agreement caused the heavy decline into June, 1877. A new agreement in June, with enormous crops, carried the market upward for months, in spite of strikes.

1882.—Strikes of ironworkers and freight handlers, especially at Pittsburg, June to September. Stocks were depressed in the first part of the year by freight rate wars, and late in the year by high money. But great crops and large railroad earnings boomed the stock market in the face of the strikers.

1885.—In March, there was a strike of coal miners in the Pittsburg district and trainmen on the Missouri Pacific. In July, a railroad strike at Chicago. Ironworkers struck June and July. These troubles may have held the market back in the first half of the year, but the absorption of the West Shore Railroad by New York Central and the great crops brought on a great bull market, running until November.

1886.—Scattered strikes, some of them violent, all over the country; on the Southwestern railroads, March to May; the coal miners in April; local traction and other strikes in New York and Brooklyn, February to June; on the Lake Shore Railroad, April to July; with the Chicago dynamite outrage, May 3. The crops were good and railroad earnings fair this year, but neither were up to record mark. Business was depressed and gold exports caused apprehension. The May decline in stocks was probably a trifle more acute, on account of the strikes, but conditions favored a bull market and stocks rose. The December break was due to high money.

1890.—Great strikes on the Illinois Central, Chicago & Alton and New York Central. June to August, with the switchmen's strike in Cleveland in June. Undoubtedly their troubles helped the speculative decline in stocks in the fall; but the real cause was the Silver Purchase act of July, the Democratic sweep in the fall elections, the small crops, and the heavy foreign selling of American securities, which was explained finally by the difficulties of the Barings, who failed in November.

1892.—A bad year, with the great strikes and riots at Homestead, Pa., July and August, and the switchmen's strike at Buffalo in August, troops being called out to repress violence. Again, these troubles accentuated the trend of the year, which was downward. But stocks would have declined anyhow. 1892 was a year of distribution by stock market operators, in preparation for 1893. Railroad earnings were large, but the crops were small.

1893.—Great unrest among labor unions. A strike on the Atchison and Big Four in April; among the Ohio coal miners, in May; at the Carnegie mills, all the spring and summer; by

'longshoremen, in August; and on the Lehigh Valley, in August. Stocks would have declined this year in any event. The election of Cleveland foreshadowed a repeal of the protective tariff. Gold exports were enormous. The collapse of the McLeod deal in Reading, Feb. 20; monetary stringency in March and April, rather small crops, and an unfavorable balance of foreign trade, brought on an irresistible fall in stocks, with which the strikes had little or nothing to do.

1894.—150,000 soft coal miners went on strike in April, and the Great Northern trainmen tied up that railroad until May. Coxey's army of tramps marched through the country in the spring; and in May began the famous strike at Pullman, Ill., which extended to all the Western railroads, in consequence of labor's boycott of the Pullman palace cars. Chicago, Burlington & Quincy, Northwestern, Rock Island and the Baltimore & Ohio were forced to reduce dividends, but this was mainly because business depression had reduced the income of all the railroads. Good crops and low interest rates prevented any serious break in stocks.

1897.—150,000 soft coal miners again on strike, July to September. Good crops and large railroad earnings carried stocks steadily upward until the fall.

1901.—Year of the great strike of United States Steel employees, June to September; the fierce traction strike in Albany and Troy, and the machinists' strike in the United States, Canada and Mexico. If the stock market paid any attention to these events, the effect was not apparent. A great bull market was in progress. The famous May panic was due to the Northern Pacific corner, and subsequent breaks were due to the hot and dry weather in July, which scorched the corn and some other crops; to the assassination of McKinley, and the collapse of various wild-cat securities.

1902.—A bad strike among the hard coal miners, May to October, and partial suspension in the bituminous coal fields. Chicago tied up for a time in July by the freight handlers on 24 railroads. The great bull market of 1902 ignored these strikes entirely. High money in the fall and utter exhaustion of the loaning power of the banks put an end to the bull market in September.

1903.—A greater number of small and other strikes than ever before in history, involving nearly 700,000 workmen and operatives. The award of the Anthracite Coal Commission had rendered labor arrogant. Higher wages were demanded everywhere and generally conceded. The building trades strikes in New York and those of the freight handlers at St. Louis in May were especially annoying. These strikes may have accentuated the decline in stocks in 1903, but they did not cause it. The Northern Securities decision in April and high money, with depleted bank resources, transformed a spring reaction

in stocks into a scramble to sell and a panic. The strikes played no part as an effective cause. The panic was a financial one, and neither good crops nor record railroad earnings were sufficient to stop it.

1904.—Violent and frequent strikes in the New York building trades. A six weeks' strike among the masters and pilots on the Great Lakes, which cut down ore shipments. From July to September, a great strike among packers in the West. Riots and murders at Cripple Creek, and finally a prolonged strike at Fall River. Nothing of this sort had any effect on the bull market, which began in March on final settlement of the Northern Securities case. Stocks were low in the Spring, on account of the Baltimore fire, and then swung irresistibly upward until the Lawson panic in December. The crops were good, money rates low, and railroad earnings simply huge.

1906.—Anthracite coal strike in Pennsylvania, in April, with riots and violence. This had no effect. The break in May was caused by the San Francisco earthquake. The July decline was due to technical conditions in the market, and the break in December to high money and the depletion of bank reserves.

The charts exhibit the course of five active railroad stocks in each of the years referred to. An effort has been made to select the stocks which would have been naturally affected by the strikes, although it must be noted that the whole market swung upon the same lines. Pennsylvania was not listed in New York until 1897, and was scarcely traded in for a year or two thereafter; and, therefore, the stock is not available for the charts until the year of 1901. The stocks chosen for each year are described above the charts.

The General Situation.

There is no doubt about an improvement in the general business situation. The matter is no longer prospective but actual. In my letter of February 2, 1907, the following prediction was offered: "Net earnings will fall off in many important quarters during the next year. This is as certain as death." Since that time I have made no predictions of immediate improvement in this quarter, but do so now. Our railroad earnings will steadily advance from now on.

I have devoted particular attention this week to an examination of all dependable items of news in regard to a business revival. It would be impossible to offer the result of this investigation in detail in the limits of a letter, but it may be stated that not only do I find active preparations for handling an increasing business in every line, but that the actual improvement shown is above my expectations. The bearish oracles, when they are confronted with documentary evidence of improvement which they cannot get around, resort to the contention that the improvement is only a fluctuation, but it isn't. It is the beginning of better things.

While the legitimate press is optimistic in its views I find many absolutely fallacious promulgations in certain financial organs. For obvious reasons I do not care to give names, but I will suggest to observers that we are in a period of misleading captions and that headlines should not be accepted without a careful perusal of the subject matter, which is found, after a little analysis, to be diametrically opposed to the headings.

I feel safe in offering it as my opinion that we will see a steady improvement in general business and corporate earnings from now on.

The Technical Situation.

The short interest is not so extensive as last week, but is still of considerable proportions and of a weak character. It could be routed with very little effort, but the more important manipulators do not care to create a marked advance at once. That will come later on.

The long interest is well fortified. Very few weak public accounts are found.

The technical situation is strong.

The Crop Situation.

The dry weather of the week has been favorable to most crops. The Government report on cotton is satisfactory, showing an improvement over last month and an average ten-year condition. My private advices are more cheerful than the published expressions of the trade journals. We will not get bumper crops in all cereals, but the aggregate will be of a "bumper" kind, if prospects hold good.

Conclusion.

I cannot see anything ahead but higher prices for stocks. There may be some slight recessions brought about by manipulators who wish to create a market on which they can buy to advantage, and by the plunging of the impatient bears, who have been losing money for a year. Such recessions should be taken advantage of to purchase stocks. We may have to exercise a little patience before the rewards come, but with that necessary factor and reasonable operations we are, in my opinion, bound to come out all right. I like the high-priced dividend payers better than anything else, but Chicago & Alton, Denver & Rio Grande and Chesapeake & Ohio are cheap at current prices. In the industrials, Amalgamated looks very promising.

As is customary, I reproduce below a chart showing price movements for the month of June:*

The chart illustrates dullness more than anything else this month.

* This chart appears on page 6 of the Book of Charts issued in connection with this volume.

July 11, 1908.

The chart that accompanies this letter,* as a supplement, compares the course of earnings and stock prices in six years next after a panic and represents the total earnings in each year in millions of dollars for ten of the principal railroads which published reports of earnings. Also the average price of ten of the most representative railroad stocks chosen without regard to whether they reported earnings or not. It is fair to assume that the earnings of the whole body of railroads followed practically the same course as those of the ten selected. The chart sketches the whole situation therefore roughly, but nevertheless accurately.

The continuous line shows the average price of ten representative stocks. The dotted line shows the total earnings of ten railroads.

In 1874 and 1878 gross earnings are shown, there having been at that time a singular reluctance in many cases to report net earnings. In the other four years net earnings are shown.

The Railroads Represented Are:

1874.

Prices.	Gross Earnings.
St. Paul	St. Paul
Northwestern	At. & Pacific
Rock Island	C., C., C. & Ind.
C., B. & Q.	Central Pacific
Erie	Ohio & Miss.
Ill. Central	Ill. Central
Lake Shore	Mo., Kan. & Tex.
Mich. Central	Mich. Cent.
N. Y. Central	Tol., Wab. & Wn.
Union Pacific	Union Pacific

1878.

Prices.	Gross Earnings.
St. Paul	St. Paul
Northwestern	Northwestern
Rock Island	Central Pacific
C., B. & Q.	C., B. & Q.
Erie	Atchison
Ill. Central	Ill. Central
Lake Shore	Mo., Kan. & Tex.
Mich. Central	Reading
N. Y. Central	Iron Mountain
Union Pacific	Union Pacific.

* This chart appears on page 37 of the Book of Charts issued in connection with this volume.

1885.

Prices.	Net Earnings.
St. Paul	Atchison
Northwestern	Erie
Rock Island	Louis. & Nash.
C., B. & Q.	C., B. & Q.
D., L. & W.	Norf. & Wn.
Erie	Nor. Central
Lake Shore	Nor. Pacific
Mich. Central	Penna.
N. Y. Central	Reading
Union Pacific	Union Pacific

1894.

Prices.	Net Earnings.
Atchison	Atchison
C., B. & Q.	C., B. & Q.
St. Paul	St. Paul
Northwestern	Ill. Central
Del. & Hudson	Balt. & Ohio
Erie	Erie
Lake Shore	Penna.
Louis. & Nash.	Louis. & Nash.
N. Y. Central	Union Pacific
Reading	Reading

1897.

Prices.	Net Earnings.
Atchison	Atchison
C., B. & Q.	C., B. & Q.
St. Paul	St. Paul
Northwestern	Balt. & Ohio
Del. & Hud.	Louis. & Nash.
Erie	Erie
Lake Shore	Ill. Central
Louis. & Nash.	Penna.
N. Y. Central	Union Pac.
Reading	Reading

1904.

Prices.	Net Earnings
Atchison	Atchison
St. Paul	St. Paul
Balt. & Ohio	Balt. & Ohio
Erie	Erie
Ill. Central	Ill. Central
N. Y. Central	Rock Island
Penna.	Penna.
Reading	Reading
Louis. & Nash.	Louis. & Nash.
Union Pacific	Union Pacific

The remarkable features indicated by the chart are:

1. In years after a panic, earnings are moderate in the first few months of the year. They expand rapidly until late in the fall, October or November, and there is then a falling off.

2. If the bulk of other underlying conditions are favorable, the expansion of railroad earnings is accompanied by a handsome rise in the prices of stocks.

In previous advices it was stated that all years, next after a panic, coincide in some respects. They are all attended by:

Large bank reserves and low interest rates.

Increase of exports and smaller imports.

Depression in general business, but with recuperation in progress.

Higher prices for stocks.

As a general rule, there are either no gold exports of consequence or else moderate imports. In 1894, an exceptional year, there were heavy exports.

Taking the years discussed in their proper order, the following brief summary of existing conditions of each is of interest:

1874.—The first rebound in stocks from the panic prices of 1873 was not altogether warranted by the depression of business, the low prices of commodities, and the hostile granger legislation of Wisconsin and other western states. Public confidence had been shattered by the panic. The public feared inflation legislation by Congress; and not until that question was settled by the act of June 30, which was signed by General Grant, did there come a moderate turn for the better. The corn crop was the smallest for seven years, although wheat was the largest crop up to that time. Railroad earnings improved materially in the fall, but this did not prevent reductions of dividend by the Lake Shore, N. Y. Central and some other railroads; and in September the western courts having upheld the Wisconsin granger laws reducing freight and passenger rates in the state, sentiment was greatly depressed. Many of the more important railroads refused to publish reports of earnings, after the first few months. The year, on the whole, was not favorable for a bull market.

1878.—This was really a bull year, other stocks having risen more than the 10 selected. Record crops, huge exports, gold imports and good railroad earnings helped the stock market. All the railroads reported earnings in excess of 1877. Interest rates were low, until the fall. Tight money then caused a reaction in stocks, on technical conditions. The combination among the coal roads was maintained the entire year, but was not renewed for 1879 and this hurt those stocks in December.

1885.—In spite of some drawbacks this was a wonderful year, especially the latter half of it. In the early months, railroad earnings were low, owing to trunk line wars, and dividends were cut by many companies. Against $93,000,000 paid out in dividends in 1884, only about $75,000,000 was disbursed in 1885. The West

Shore incident—absorption by the New York Central—tremendous crops, better railroad earnings, and finally a new agreement among the railroads to maintain rates, brought about a turn in the stock market in June, and a great boom followed, running into a bear panic, which lasted until November.

1894.—This year was noted for the vast amount of idle money in the banks; very low interest rates, enormous exports, and fairly good crops, corn being a failure in some states, but other grains and cotton being enormous. Hot and dry weather in the corn states gave rise to a crop scare. Railroad earnings were small until the last part of the year. Many reductions and suspensions of dividends. Total dividends $83,000,000 against $93,000,000 last year, effects of the panic. Business was greatly depressed. Coxey marched this year, and there were several great strikes, especially the one at Pullman, Ill., which involved nearly all the western railroads. The improvement in railroad earnings in the fall did not offset the many depressing factors. Two $50,000,000 bond issues to replenish the Treasury gold reserve and the Wilson tariff bill were among the evil influences of a year so depressing that stocks never had a chance.

1897.—Other fundamental factors being favorable, the great railroad earnings of 1897 helped bring on a great bull market in stocks. Net earnings were the largest for three years, and many dividends were resumed or increased. Great crops flooded the railroads with traffic. Money was easy and exports were unprecedented. The Trans-Missouri decision gave a set-back to stocks in the spring; but preparations in Congress to pass a protective tariff bill supplied the final stimulus to traders, and the buoyancy of the stock market in the fall reflected the great confidence felt by all financial interests as to the future.

1904.—Again the country was favored with immense crops, and the war between Turkey and Greece created a heavy European demand for American products. Exports were enormous, and gold was imported. It was a record year in railroad earnings and dividends were $221,000,000 against $197,000,000 the year before. The banks were full of money and interest rates were low. The conflagration at Baltimore depressed stocks in the Spring, but after the liquidation caused by that incident, and after the Northern Securities decision in March, nothing could hold stocks back any longer and a great swing upward took place, lasting until December.

The General Situation.

The improvement in business conditions continues. Judge Gary a few days ago pointed to the fact that the steel business had risen to 50% of normal, and prominent officials of the corporations subsequently raised the estimate to 55%. There are reports from all sections of re-employment of labor and this, in the last analysis, means a resumption of business activity. The improvement in railroad traffic, while not yet shown by earnings reports,

is evidenced by a further reduction in the number of idle cars. The number of idle cars on June 24 was 313,298, as against 349,998 on June 10, and 413,338 on April 29.

My private advices have a very cheerful tone. There is little complaint from any quarter.

In order to arrive at a dependable view of the general situation, I have put on foot this week a circular inquiry which will reach every part of the United States. I hope to be able to formulate from my replies a most interesting and valuable tabulation.

Business conditions and prospects are quite satisfactory.

The Technical Situation.

The technical situation is not so strong as it was last week. This statement, however, is wholly comparative. There has been some short covering from sources hitherto stubborn, but there still remains a very considerable short interest. The buying of stocks, aside from the retiring of short commitments, has been of a very good character. The most satisfactory evidence of technical strength is the scarcity of a floating supply of stocks. I know of one case a few days ago where Atchison was bid up five-eighths on an order for 300 shares, quite a remarkable demonstration of scarcity in an active stock.

There is another point in favor of the technical situation and that is the sold-out condition of many of the smaller operators. This little bulge, coming out of an exasperating period of dulness, has incited much profit-taking by this class. Such speculators are impatient and their buying will soon reappear, whichever way the temporary trend of prices may be.

The important buying which I have frequently referred to in the last month is a support and not a menace to the market. It has helped to create the scarcity mentioned above and these purchasers have no idea of turning over holdings on an advance of a few points. Their stocks will not come out until a materially higher level is reached.

The technical situation is still strong.

Crop Conditions.

Crop prospects, as shown by the Government report, are very promising. The high price of corn and our big hay crop are two important items. The matter has been fully covered in the crop letter of July 9.

Conclusion.

The sudden resumption of comparative activity in the stock market may, and probably will, bring about fluctuations which will appear violent by contrast with our recent dullness. Unless there is a radical change in the situation, however, we need not look for any material set-backs at present. There is a little in the

perspective for the bears to gaze at with hopeful eyes. The political situation was a cut-and-dried affair, so far as the Denver nomination is concerned, and the consensus of opinion is that Taft will be elected. The betting in the Wall Street district is running as high as five to one on Taft, which, being an expression of opinion backed up by dollars, shows the trend of prediction here.

The great danger just at present is in the possibility of the market running away from the influences which are forcing prices upward. That is to say, our stock prices may advance until improvement and prospects are over-discounted and such an advance would almost certainly be accompanied by public enthusiasm and a boiling stock market. This would greatly weaken both the technical and statistical situation and would be a bad thing all around. I offered the opinion about two weeks ago that we would have a shake-out some time before September and that before such an event occurred there would be a hurrah. So far prices have advanced in a reasonable and orderly manner, but if we get to going too fast it will be best to step aside for a bit. I will keep a close watch on this factor and will try to hang out the danger signals promptly.

For the present I continue to recommend purchases of good stocks on all little reactions.

Like Northern Pacific, Atchison and Pennsylvania best in the rails; Denver & Rio Grande, Chicago & Alton and M., K. & T. in the low-priced rails; Amalgamated and U. S. Steel in the industrials. I am informed that important developments are pending in Northern Pacific and U. S. Steel, and until the actual events occur it is probably safe to buy these shares. When the cat comes out of the bag it may be different.

July 18, 1908.

In response to a circular letter mailed last week I have received so far more than 600 replies. The field of investigation was very broad, extending to almost every quarter of the United States and Canada. Replies from foreign countries have not yet been received, but as the attitude of outsiders is interesting it will be set forth in these advices later.

The replies are greatly diversified in their general as well as their geographical scope. They come from men interested in practically every line of business. Many correspondents answered only one or two of the questions asked, declaring themselves incompetent to pass opinions on the others. In the tabulations which follow, therefore, some disparity will be found in the number of answers to different questions. The information requested was as follows:

1. What are the crop prospects in your locality?
2. What are the general business conditions and prospects?

3. What is the attitude of public speculators in regard to future security prices?

4. What is the attitude of small investors?

5. What is the attitude of bankers?

The results, set forth in as much detail as space will permit, were as follows:

Crop Prospects.

Good	350
Fair	90
Poor	24
Total	464

General Business Prospects.

Good	320
Fair	204
Poor	34
Total	558

Attitude of Public Investors.

Bullish	154
Waiting	130
Bearish	28
Selling with hope of recovering later	2
Uncertain	32
Total	346

General Business Conditions.

Good	66
Fair	146
Improving	248
Poor	142
Total	602

Attitude of Public Speculators.

Bullish	138
Bullish for long pull, but waiting	116
Bearish	42
Uncertain	74
Total	370

Attitude of Bankers.

Optimistic	126
Hopeful	58
Conservative	152
Pessimistic	12
Total	348

It is generally admitted that crops are the all-important factor at present. The replies to this question show that out of 464 correspondents, only 24 find crop conditions poor. This does not accord with the recent sensational damage stories, but it is highly probable that the showing is more reliable than inspired gossip and newspaper scares.

General business conditions are about as anticipated. Business is certainly below normal, but there is every reason to look for improvement.

It is business **prospects** on which we **speculate** and these prospects are certainly cheerful. Only 34 out of 558 correspondents consider prospects poor. We have been told very frequently of late that all we needed to bring about a restoration of business was confidence. If this is true we may feel quite satisfied with the confidence expressed by business men generally.

As to the attitude of public speculators, I would have preferred from a purely technical point of view, to find more bears. It may be stated, however, that my clientele is of a pretty high order. The simon pure day-to-day speculators have little or no use for my advices. Another point about the position of public speculators is the waiting attitude. This means two things. First, that the people who are waiting may get left, and second, that in the event of unfavorable developments and a consequent break there is a good underpinning to check the decline.

The same general ideas cover the question of the attitude of small investors.

The opinions of bankers as set forth are not particularly illuminating. Most of them are "conservative," but this may be considered rather a chronic condition with bankers.

As tabulations like the above are interesting and instructive, I intend later on, to poll my list on political possibilities. This should give us a pretty good line on the sentiment in different localities.

The General Situation.

The general situation continues promising. Many important financiers are expressing themselves as satisfied with the present and sanguine as to the future. Mr. Stuyvesant Fish and Mr. Ripley, president of the Atchison system, are the only notable exceptions. Mr. Fish is no doubt a little sore about being boosted out of the Illinois Central presidency, and his remarks are more or less a reflection of his acrimony. Mr. Ripley has been talking blue ever since the troubles of November. He should have expressed his pessimism a little earlier.

My foreign correspondents state that in London, Paris and Berlin, American securities are now looked upon with more favor than at any time during the last year.

The question most discussed in Wall Street at present is that of an advance in freight rates. There is much division

of opinion on the subject. Many men whose opinions are entitled to respectful attention hold that rates should advance, and on the other hand many students of note believe that a reduction in the price of labor is the correct solution of the problem. My personal view as to the merits of the question is that rates should be advanced. I fear this is not a popular view, but will give my reasons briefly.

We know that the prices of all commodities, as shown by such authoritative index numbers as those published by Dun's, Bradstreet's, and Sauerbeck, are advancing steadily. There are fluctuations in this upward trend, of course, but in ten years the advance has amounted to between 40 and 50%. Wages have not risen so rapidly as the cost of living, and it will be unjust as well as impracticable to force them down while this upward trend in commodity prices continues. True, we have recently witnessed a moderate decline in commodities prices, but this is a temporary reversal which must be attributed to the period of depression and stagnation and not to the fundamental force which is advancing prices. So long as gold production continues to increase we may look for gradually advancing prices for all commodities.

It is also a matter of record that, while there have been some slight advances in freight rates during the last ten years, the increase is very small as compared with the increased cost of producing transportation. It is submitted therefore that the equitable solution of the problem is an advance in freight rates. It is not thought that a reasonable advance would work a hardship on producers. The farmer is receiving high prices for everything he sells and is reaping an undue benefit, a portion of which can be sacrificed in the interests of fairness and equity. In the last analysis producers will benefit when the railroads are permitted to make enough money to carry on necessary extensions and improvements. No class can reap ultimate benefits from jug-handle distributions.

Views as to the political situation remain unchanged. Taft's election is looked upon as a certainty. This opinion is as pronounced in Wall Street as was the case in 1904, at which time everyone here felt sure about McKinley's election and acted accordingly. There is an expressed opinion in some quarters that Bryan will be elected. This view is based on the fact that the party in power during panic years has always been defeated. It would, however, be empirical to base a conclusion on so few instances, and aside from this we must figure that the more long-drawn and exact a historical parallel is, the nearer we are to the point of divergence.

The iron and steel business is slowly improving. "The Iron Trade Review" says this week: "There is clearly evident throughout the iron and steel industry an optimism which is now really being felt."

The general situation appears to me most promising.

The Technical Situation.

There is very little change in the technical situation. The floating supply of stocks is small, and while there are plenty of stocks in the loan crowd, I doubt whether this fact can be depended on as a true reflection of conditions. The bears are able to create the appearance of a plentitude of stocks at will in these dull markets by borrowing under cover.

There is a considerable long account on margins, but this class of commitments is unusually well fortified with cash, while on the other hand, the margins of the bears are, so far as I can determine, rather attenuated.

I consider the technical situation good.

Crop Conditions.

Crop prospects have been improved in the last day or two by beneficial rains in the dry districts.

Conclusion.

While I have taken a neutral attitude for the moment, for reasons set forth in the daily letter of July 16, this position is subject to a change at any time. In the event of a sharp decline in prices it is safe to buy. From the speculative point of view I prefer the industrials. Prices of commodities will soon begin advancing, and general business will improve. These conditions will help the industrials materially. An advance in freight rates will be the signal for a decided improvement in railroad stocks, but it is not thought the readjustment will take place until after the election. Pressure is being brought to bear to prevent railroads from taking any action either as to higher tariff, or a reduction of wages for the present. The railroad people want Taft and fear Bryan, and I have good reasons for believing that a distinct understanding exists. There is a community of interests on this question, and if the railroads behave nicely for a few months they will get what is due them.

In case of material recessions would buy Amalgamated Copper, Steel common. American Locomotive and American Car & Foundry. The two stocks last named may not move so rapidly as the others, but they are cheap and will have their turn. In the rails I still like Atchison, Pennsylvania and Northern Pacific best.

July 25, 1908.

In the letter of July 11, there were presented to readers a number of diagrams, which revealed the extremely important fact that in the years, next after a panic, railroad earnings enjoy a great increase after the middle of the year and, with other conditions normal and promising, railroad stocks have a strong ad-

vance into the Fall of the year. The movement of industrial stocks in years next after a panic are illustrated by the series of charts accompanying this letter.* Practically all the charts in existence are based on the movements of railroad securities, and as considerable difference is found in the action of the respective groups at times it is thought the matter as presented will prove interesting as a basis of comparison.

The charts represent the course of the average prices of 5 selected stocks in each year. Industrial organizations were few in number, prior to 1900, but the 5 stocks chosen fairly show by their action whether business was growing better or worse. They are:

1866.	1874.	1878.
Cumberland Coal	Consolidated Coal	American Express
Canton Co.	American Express	Del. & Hudson Canal
Reading	Pacific Mail	Pacific Mail
Quicksilver	Quicksilver	Quicksilver
Western Union	Western Union	Western Union
1885.	**1894.**	**1897.**
American Express	American Cotton Oil	American Sugar
Colorado Coal & Iron	American Sugar	General Electric
Del. & Hudson Canal	General Electric	Illinois Steel
Pacific Mail	National Lead	National Lead
Western Union	U. S. Rubber	U. S. Rubber

1904.

Amalgamated Copper
American Smelting
National Lead
Pressed Steel Car
U. S. Steel, pfd.

The course of railroad earnings, as shown in the letter of July 11, indicates the revival of business after the middle of the year. These industrial diagrams confirm the story.

In a general way, it appears that industrial stocks have, in years next after a panic done better than even the railroads. From some low point, early in the year, before the revival of trade had become at all exciting, industrial stocks have risen finely into the Fall of the year. In 1874, they did better than the rails; and in 1894, also, until the new Wilson tariff bill threatened to unsettle many important lines of manufacturing. The lesson, which may fairly be extracted, all things considered, from the data before us, is that while general business goes slow in the first half of the years next after a panic, it enjoys a more rapid advance in the second six months and that industrial stocks swing irresistibly upward with the renewed activity of trade. What is going on now, in

* This chart appears on page 26 of the Book of Charts issued in connection with this volume.

1908, at this writing is only a repetition of history, is in the line of the teachings of common sense, and is an augury for much higher prices for industrial stocks in due time, provided, of course, no accidents or calamities occur, such as a crop failure, adverse political developments, etc. It will not do to base probable future stock prices on mere repetitions. The promise of future business affairs is now as favorable as in any of the periods consulted, but we are not out of the woods as yet.

The General Situation.

The great event of the week has been a favorable one. The hysterical $29,000,000 fine in the Standard Oil case has been overturned and has, for the time being, lost all potency as a menace to prices. This decision is important from several points of view. It shows that capital will reasonably be protected in the higher courts and that punitive measures which are tantamount to confiscation cannot endure. Also our credit and the credit of our securities will be greatly enhanced abroad.

There is continued improvement in general business and future prospects are good. I fear, however, that the actual betterment is being slightly exaggerated in some quarters. The predictions of a car shortage in the next few months are not very well supported, and traffic managers do not appear to be displaying any unusual apprehension or activity based on such a theory.

While there is reasonable improvement in the iron and steel trades, the matter is frequently overdrawn in the news organs. Such authorities as "The Iron Age" do not speak so confidently as the municipal dailies. Its view as of July 23 is as follows:

> Improvement continues slow and is somewhat spotty with some complaint of irregularity in prices in some finished lines. Leaders in the steel industry object to the efforts to boom the business and do not expect a return to normal conditions until next spring.

My private reports of business conditions and prospects are very favorable. A reasonable and gradual advancement is shown in all lines and the future is promising. It should be stated, however, that the word "reasonable" is employed advisedly. Exaggeration is not beneficial as it is bound to lead to excesses on the part of the credulous. The newspapers, in their very laudable attempt to assist in the restoration of confidence will defeat their own object if they resort to ballooning methods. We are still facing a Presidential election. Some of our crops are still in a critical condition. These features must be accorded due consideration.

Nothing in the above is intended to carry a pessimistic tone. In my opinion, we are progressing nicely, but in examining these things we must use soberness and judgment and not be carried off our feet by enthusiasm or verbal coloring.

The general situation I consider quite satisfactory.

The Technical Situation.

The technical situation does not appear so favorable as last week. There has been considerable buying of a poor character and a considerable portion of the weaker short interest has been eliminated. Some of the buying, however, is good. A number of large operators who received a hint that the Standard Oil case was to come up unexpectedly dispcsed of all or a portion of their lines on the same theory as that offered in these advices; *i. e.*, that if the decision was unfavorable a very sharp break would probably occur. Many of these operators have, I am informed, replaced their lines. They simply sacrificed a couple of points in order to conserve the factor of safety.

As has been stated in former advices, the public buying when it appears in force has a potential power temporarily. Prices are bid up freely with the technical underpinning growing weaker and weaker as the excitement grows and eventually there is a crash. This is inevitable. We are apparently approaching such a situation now, but it is in its first stages and need not create immediate apprehension.

Crop Conditions.

Crop conditions continue in the main favorable. The reports on oats are not so good and corn will require favorable weather right along if we are to garner a large crop. Cotton shows very well and is, of course, of primary importance.

Conclusion.

With the Standard Oil matter out of the way and the public in the market, it is my opinion that we may safely buy good stocks on all recessions. For the present I prefer the industrial shares. It is my opinion that Amalgamated Copper will sell at 100 before the year is out. The dividend will soon be increased. The equipment stocks also offer fair promise. American Locomotive looks very cheap at this level of prices. With a resumption of normal business conditions, these equipment companies should do very well indeed. The rapidity with which such corporations change from bad to good is illustrated by the following table showing the gross and net earnings of the American Locomotive Company since the inception of the corporation for fiscal years ending June 30:

Year.	Gross.	Net.
1902	$26,398,394	$3,107,177
1903	33,105,725	5,053,410
1904	33,068,750	5,663,765
1905	24,150.201	4,353,668
1906	42,547,876	6,462,505
1907	49,515,486	6,771,105

The showing for 1908 will probably be a poor one, but there should be improvement from now on and this will be anticipated in the security prices.

My personal view as to the immediate future of the market is about as follows:

It is probable that for a few weeks we will have a rather broad market, with numerous advances and recessions, particularly in specialties heretofore dormant. The trend will, I think, be to a higher level, but some time in the next month or six weeks we will get a very decided reversal. There are several reasons to anticipate this action. The last thing the important interests in banking and speculative circles want is an indiscriminate public following, subject to excitement or fright. Whenever such a following is built up they are "shaken out." This has occurred innumerable times in the past. Also the gradually weakened technical situation mentioned above will render the position of public speculators vulnerable and the amiable process of "shaking 'em out" will be rendered easy. The exact date of the appearance of such a reversal is, of course, more or less guesswork. Personally I do not think it will occur for some time, and we may be able to gauge it pretty accurately.

August 1, 1908.

In the conduct of their campaign for the education of the freight-paying public to the virtue of an advance in rates the railroad men might make their case stronger if they would more urgently direct and firmly hold attention to a great underlying equity in the proposition, which has down to date been almost entirely ignored. By so doing they might convincingly prove that not only is there present occasion and necessity for the raise, but they would be showing why this is so, why in a reconstruction of the rate schedules upward they are moving in obedience to irresistible forces, and why there are the best of reasons for anticipating a long continuation of the basic causes which are compelling action.

There is nothing in an elucidation of this subject to excite emotional or dramatic thrill, but in it there will be found more than the germ of a great truth which can be studied with profit by every man who has a dollar or expects to get one—studied understandingly and its meaning, force and bearing as an ever-present business and market factor grasped with proper appreciation.

We do not need to be told that most things purchasable with money have advanced heavily in price during the last decade. It is of common knowledge why this is the case, yet the philosophy of the subject is rarely adverted to in conversation or discussion. It is sedulously avoided as wearisome or

abstruse, yet it is to-day the very core and essence of our business life, and incidentally the weightiest consideration in the making of the stock market. It bears specifically on every pocketbook.

The general rise in prices which has been going on during the past ten or twelve years has kept substantial pace with the increase in the production of gold and the stock of gold money. The enlarged yield of gold is proceeding at about the maximum stage yet reached, approximately $415,000,000 a year, of which it is estimated that $60,000,000 to $75,000,000 goes into manufactures and arts and the remainder into the money supply—at least $1,000,000 a day or $3,650,000,000 in another decade.

Approximate Stocks of Monetary Gold in the Principal Countries of the World, December 31, 1906.

Country.	Stock of Gold.
United States	$1,593,300,000
Austria-Hungary	306,400,000
Belgium	31,100,000
British Empire—	
Australasia	125,000,000
Canada	62,400,000
United Kingdom	486,700,000
India	337,300,000
South Africa	61,400,000
Straits Settlements	600,000
Bulgaria	7,200,000
Cuba	38,200,000
Denmark	22,600,000
Egypt	140,000,000
Finland	5,100,000
France	926,400,000
Germany	1,030,300,000
Greece	5,600,000
Haiti	1,000,000
Italy	215,500,000
Japan	80,100,000
Mexico	40,000,000
Netherlands	45,900,000
Norway	8,300,000
Portugal	8,600,000
Roumania	20,700,000
Russia	939,400,000
Servia	2,200,000
South American States—	
Argentina	102,700,000
Bolivia	400,000
Brazil	21,200,000
Chile	2,000,000

Colombia	100,000
Ecuador	3,700,000
Guiana:	
British	100,000
Dutch	200,000
Paraguay	100,000
Peru	6,800,000
Uruguay	15,500,000
Venezuela	300,000
Spain	90,900,000
Sweden	22,600,000
Switzerland	29,000,000
Turkey	50,000,000
Central American States	2,000,000
Total	$6,888,900,000

The ranking authorities of Europe and America hold out no hope of important reduction in the output for many years to come, although some of them, notably Mr. Geo. E. Roberts, for many years director of the U. S. Mint, and at present president of the Commercial National Bank of Chicago, is of opinion that we have reached the limit and no great change either way may be expected for perhaps a decade. The world's gold production has increased at an average rate of about $20,000,000 a year since 1896—from $202,000,000 in 1896 to $412,000,000 in 1907—and most recent computations show that the average commodity price is about 50 per cent. higher now than at the earlier date named.

The conclusion is forced on us that the world is in an era of extraordinary gold inflation, or if that phrase jars, employ the softer word expansion. The net result is depreciation in the value of the dollar, of which measure and reflection is found in higher average prices—not necessarily values, but prices. With gold production going on at the present rate and no indications of a letdown, who can judge with certainty when the rise in prices will stop or the buying value of the dollar find bottom? The one certainty we all see and realize is that the tide is still rising. It does not rise noisily or stormily, and the people are not hourly thrown into convulsions by the spectacle, yet the tide ceaselessly creeps up, up, up. The level of the golden flood ever reaches higher, without rest or wait. The movement is silent, almost stealthy, yet resistless as death. And every new high record in the volume of gold money makes for higher average prices in the markets of the whole civilized world. That has been the visible effect of the gold inflation force for the last ten years, and if there is any change in the tendency or current it is not yet perceptible.

The railroads stand out as practically the only exception to the upward swing of prices due primarily and chiefly to the gold inflation—not railroad stocks, but the only commodity the railroads

have to sell, namely, *transportation*. That single line of merchandise, the sole product of the greatest of American industries, remains practically where it was ten years ago. The railroads have not participated appreciably in the almost universal price uplift. Transportation as a merchantable commodity is sold at about former quotations. It is entitled to its day in court. It is entirely out of harmony with the rest of the situation.

The raw materials the railroads use in the manufacture of the single commodity they deal in are away up in price (30 to 75 per cent.)—labor, iron, steel, ties and all forms of equipment and supplies. The cost of operation is 15 to 30 per cent. more than it was even so recently as five years ago, and a better standard of goods than formerly is demanded and exacted—greater efficiency, safety and convenience.

There might be valid ground for opposing the contention of railroads for the privilege of marking up the price of their goods, even in the face of proved large increase in cost of production, if it could be shown that the move was being attempted to meet a temporary condition. Unfortunately or fortunately (depending on the point of view) the conditions that now confront the railroads, in common with the rest of the world, hold out no such hope or possibility.

With a continually depreciating dollar the inexorable logic of the situation points to a still higher rise in the register of commodity prices, making escape from an advance in freight rates daily and hourly more impossible. The facts, figures and conclusions presented by Vice-President Brown, of the New York Central, in favor of higher rates were unanswerable as far as they went, but failed to wholly satisfy. If he had gone further and dug deeper into first causes he would have made his contention clearer and at the same time would have proved the utter impossibility of a change for the better in the legitimate railroad position.

Logically there is only one course open. For the reasons set forth in the foregoing it would be grossly unjust to the employees to cut their wages, in the face of advancing prices for the necessities of life—a movement that threatens to stretch out indefinitely, or until the gold mines shut down or become unprofitable.

In Thomas Gibson's Special Market Letter of July 28, Mr. Arthur Selwyn-Brown presents complete tables of the production of gold from the date of discovery of America down to the present time, besides other facts and data of a most interesting character. Such statistics cannot be published too often or distributed too diffusely. They should be always before the vision of a business man, as a map. They tell in the most condensed possible form the story of the revolutionizing development in the world's most important industry—a record that commands the intelligent thought of the country.

Statistics presented by Mr. Roberts tell us that stocks of gold in the principal banks of public issue and public treasuries of the

world at the close of 1906 showed an increase of $1,625,487,000 during the eleven years last preceding, or 85 per cent.

During the twelve years ending with 1907 the production of gold closely approximated $3,730,000,000; $2,960,000,000 went into the form of money, according to a high authority.

With this astounding record of gold inflation already accomplished and the promise of still greater future inflation, where, it may be asked in passing, does the chronic bear on the stock market stand? What hope is there for him? **W. G. Nicholas.**

Recent discussions in these advices pertaining to the gold supply and its economical effects have aroused so much interest that I have decided to pursue the question a little further. Mr. W. G. Nicholas, one of our ablest financial writers, has given his views above in a very clear manner, and later on Mr. Byron W. Holt, author of "The Gold Supply and Prosperity," will set forth his opinions as to specific effects on all classes of securities and commodities. Professor J. Pease Norton of Yale University has also touched on this subject in a special letter to be issued on August 4. These letters, taken in connection with Mr. Muhleman's recent letter and Mr. A. Selwyn-Brown's discussion of the future supply, should give us a pretty good understanding as to the salient points of the subject.

Personally, I think it is most important that this factor should be understood, as it has a most pronounced bearing on every purchase of bonds, stocks or commodities. There is nothing abstruse or recondite about the matter and a little reflection will make it clear.

The General Situation.

The general situation continues satisfactory. Improvement in the iron and steel business is reflected by the quarterly report of the United States Steel Corporation. This report is better than was anticipated and, while the bears claim to find flaws in the document, their strictures do not appear well founded. The chief criticism refers to the reduction in the depreciation figures, but just why the corporation should be expected to charge off as much for depreciation in a period when mills were running at 50 per cent. of capacity, as in boom times, is not explained. We must also consider the fact that the enormous sums recently spent in improvement will naturally bear fruit in reduced depreciation charges. There is nothing to warrant undue optimism in the steel and iron business, but progress is reasonable and satisfactory.

The mercantile trade is showing wonderful recuperative powers, particularly in the Middle West and the Southwest. Trade in St. Louis and Chicago is practically as it was in the season of 1906. Business conditions are also improving in the South, but much conservatism is still manifested.

There is emphatic talk of a peace pact between the Morgan-Harriman factions and the talk appears to be well supported by facts.

Mr. Harriman was bitterly reviled a few months ago, but he appears to be a hard man to keep down. He is certainly a most able railroad man and also a speculative genius.

I find the general situation quite promising.

The Technical Situation.

The technical situation cannot be called strong in the high-priced dividend-paying rails. There has unquestionably been some distribution in this quarter, and, while the short interest is increased on weakness, it is not extensive at present. There appears to be excellent buying of Union Pacific, Reading and Erie on declines, and the distribution mentioned only appears on strong spots and is never carried beyond the absorptive capacity of the market.

The technical situation in the industrials is better than in the rails. The buying of Amalgamated and Steel common is of a high character. American Locomotive and American Car & Foundry are also well taken on little dips. There is considerable short selling of the Steel stocks, which appeals to me as poor trading. It is, in my opinion, a practical certainty that Copper (the metal) will soon advance materially, and as the Amalgamated Company stands in no danger from tariff scares and has recently fortified their position by a reduction of wages, etc., I consider the stock a bargain at this level. The dividend will be advanced before long. There is a fair-sized short interest in the stock.

The Crop Situation.

While the letter from my crop expert as of July 30 shows that he is a little dubious about corn prospects, I have private advices since the date of that letter stating that corn is looking much better in the last few days. Considering our very large hay crop and the prospects for a large cotton crop, we may reasonably figure that general crop conditions are satisfactory.

Conclusion.

It is my opinion that the best method to follow for the present is to buy the good industrials on breaks and accept fair turns until the situation is clearer. There is nothing the matter with fundamentals, but the statistical and technical situations clash somewhat and the market is in a more vulnerable position than for some time. Personally, I had made up my mind that we were to have a pretty sharp advance before the middle of August, followed by a "shake-out," but this sort of figuring is largely guesswork, and I also find so many observers predicting the same thing that I don't feel so sure about it now. However, we will have to watch developments and decide later. Of one thing I feel certain; that the man who buys good stock now, provides fair margins and averages in case of a decline, will come out all right, even if there is a little rattling down before he sees profits. The possible influence on prices of a weak technical condition is limited and ephemeral, provided the basic factors are sound.

August 8, 1908.

It was the intention to devote a portion of the space in this letter to curb securities, but the matter received was too voluminous to admit of combining it with regular weekly matter. I have, therefore, issued a separate letter covering the subject.

In offering a letter on curb securities, I do not pretend to be personally well posted on this class of stocks nor to recommend any particular corporation. Digests of the affairs of the different companies covered are now being rapidly prepared in the statistical department, however, and we will have all the data at hand soon.

The curb letter has been compiled partly because of many requests for information and partly because there are unquestionably bargains in that group of securities at times. There have been some very rotten flotations on the curb but this fact does not warrant a blanket prejudice which might stifle reason and opportunity.

The General Situation.

The general situation continues satisfactory. One or two salient factors, such as railroad earnings, do not show demonstrable improvement but other factors upon which railroads will finally base their prosperity show marked betterment. The iron output is increasing, the production exceeding that of June by more than 125,000 tons. The production is still below that of the corresponding month in 1907 but is larger than any month in 1908 with the exception of March. Several good orders have been placed for rails and equipment and this bids fair to continue. Manufactures of most kinds show more activity. Metals are showing signs of rapid rehabilitation in both price and consumption, notably copper, which is being heavily purchased at advancing prices. It is the opinion of well posted men in the trade that 15 cent copper will be seen before the end of the year. Money continues plentiful and there is no reason to expect disturbing stringency in the crop moving period. Bank clearings, probably the best barometer of business activity, are increasing rapidly.

I consider the general situation promising and anticipate steady improvement in all lines from now on.

The Technical Situation.

There are both strong and weak points in the technical situation. It is helped by the fact that recent heavy absorption of stocks has been by interests who look more to the long future and income return on money, than to "turns" in the market. This statement applies to the small investor as well as to the great financial interests, and the small investor has recently been quite a factor in reducing the floating supply of stocks. Another point in favor of the bulls is the fact that during the past week, the highly speculative element have been inclined to "clean up" over night. This helps technically, as these same gentlemen who are afraid to go home in the dark, repurchase stocks in the ensuing session.

On the other hand there can be no question but that the professional short interest has been greatly reduced, particularly in the last day or two. There is still a sustaining short interest of the long-standing and stubborn character, but this position has little effect on temporary changes as they would not cover on a moderate recession and would not abandon their position in the event of an upturn unless frightened or forced into doing so.

Considering the different factors mentioned I would designate the technical situation as about normal.

Crop Conditions.

The damage reports from the Northwest have been greatly exaggerated. I have numerous letters from the districts where damage is claimed and these, taken with the clippings from the local newspapers of the Dakotas and Minnesota satisfy me that little real damage has occurred.

The letter of August 6, from my own expert, supports this view. Corn is still in a crucial period, but oats are turning out better than expected and cotton should make a large crop (at least 12,500,000 bales).

The government crop report makes a good showing. As the report appears just as this letter is placed in the printer's hands, it cannot be fully discussed. It may be said, however, that yields of 250,000,000 bushels of spring wheat and 425,940,000 bushels of winter wheat are indicated. This would make a total crop of over 675,000,000 bushels, an amount exceeded only three times in history. The mathematical crop of corn, according to the report, would be 2,716,000,000 bushels, which amount has been exceeded but once in history. We may be sure that the bearish element will now point to the fact that this report is as of August 1 and that tremendous damage has occurred in the last seven days. As to the importance of this form of argument I will state that I have heard it in the crucial crop months regularly every year without a single exception, ever since the crop reporting service was started at Washington.

The crop situation is, as a whole, quite satisfactory.

Conclusion.

While I feel that a reaction of moderate proportions will appear in stocks during the course of the next few weeks I see no signs of a culmination as yet. I do not refer, of course, to average changes of a point or two, which I not only do not pretend to guess, but vigorously disclaim any ability to guess. If we can trace selling of a good character or see evidences of danger through over-participation, through actual crop damage or for whatever cause, it is time to take profits and stand aside until the trouble is discounted, but the horizon is cloudless now, although there are dangerous possibilities which, however, have not as yet taken the form of *probabilities*. So far as figuring that "a reaction is due"

is concerned, it is my opinion that a reaction is due when it comes. I have frequently seen the cream (not the froth) of an advance lost through the fear that a reaction was due.

The process of rotation, mentioned heretofore in these advices, is advisable at present. No upward movement is ever homogeneous except in the final stages of culmination, and after reasonable advances have been witnessed in certain stocks they are apt to slide along a plateau or even react, while issues hitherto dormant are galvanized into activity.

Again I will point out the material advantages of the averaging method. This method, intelligently employed, is sound at all times, and is peculiarly adapted to the present situation. Those who do not feel like committing themselves heavily after the recent advance may buy now on the scaling principle confidently. We are entering a bull market which is as yet in its embryotic stages, and little danger exists if purchases are made in moderate amounts with a view to buying more in the event of a decline. The perplexity which results in non-participation vanishes before this form of operation, for we may be satisfied if a decline occurs which will permit of increasing holdings, or, on the other hand, we may be grateful for not getting left altogether if an advance occurs. Of course, a decline is more desirable when a scale order is started, and if only the initial lot is purchased a man feels a little grouchy because he didn't get-rich-quick, but the market and its opportunities will be with us always. The man who begins a scale order now is in a very comfortable position, provided he exercises patience and judgment, for, if the market goes up he will make some money, and if it goes down he will eventually make more—quite an ideal state of affairs in this hazardous game.

Recently I have received a number of letters asking about the prospects of the traction companies, such as Brooklyn Rapid Transit. I will therefore touch briefly on the subject.

I do not care about this class of stocks. They appear cheap enough at present, but are not, in my opinion, the best bargains. We will soon witness a resumption of the advancing tendencies of commodities and labor, and it will be very difficult to advance the five-cent fare. The rate is fixed—it is proverbial, and as the cost of producing transportation rises, the price received for transportation will not rise. In fact, it would (again, in my opinion) be infinitely more difficult to advance street-car fares than railroad freight rates. There are some offsetting factors, such as an increase in the density of traffic, the employment of improved methods which make for economy and last but by no means least, the quiet segregation of long lines in order to enforce double fares. The method last named is already in evidence, but it looks like a final resort—the enforced solution of a problem not otherwise solvable. But all such measures will require time and will meet with much opposition, and for these reasons I prefer securities not laboring under such handicaps.

These remarks are made without prejudice to the traction

stocks. It is not meant to say they will go down, or that they will not go up. The matter is purely comparative.

Continue to recommend purchases of good stocks on every reaction, preferring the industrials and recommending the averaging method as set forth above.

According to custom, a chart showing daily average stock market movements for 23 Active Rails, 18 Active Industrials and the combined average of the 41 stocks, for the previous month is presented below:*

* This chart appears on page 7 of the Book of Charts issued in connection with this volume.

August 15, 1908.

Some months ago I produced a letter in which the opinion was offered that in forecasting the stock price movements of 1908 our most reasonable analogy was with 1904. That letter was incited by the numerous comparisons which were being offered at the time by financial writers, in which they invariably compared the panic of 1907 with that of 1893 or some previous cataclysm. The troubles of 1903 were ignored.

In order to show how well this view has been supported, the following charts are offered:*

The stocks selected for 1903 and 1904 are:

Amal. Copper	Missouri Pacific
Amer. Car & Foundry	Mo., Kan. & Tex.
Amer. Smelting	National Lead
Amer. Sugar.	N. Y. Central
Atchison	N. Y., Ont. & Western
Balt. & Ohio	Norf. & Western
Brooklyn Rapid Transit	North American
Canadian Pacific	Pennsylvania
Ches. & Ohio	People's Gas
Chic. & Northwestern	Pressed Steel Car
St. Paul	Reading
Chic. & Gt. Western	Rep. Iron & Steel pfd.
C., C., C. & St. L.	Rock Island pfd.
Colo. Fuel	Southern Pacific
Del. & Hudson	Southern Railway
Erie	Tenn. Coal & Iron
Ill. Central	Tex. & Pacific
Louis & Nash.	Union Pac.
Manhattan	U. S. Steel
Metropolitan	Wabash pfd.

The stocks charted in 1907 and 1908 are substantially the same as the foregoing, but Amer. Locomotive, Distillers' Securities, Gen.

* This chart appears on page 17 of the Book of Charts issued in connection with this volume.

Electric, Great Northern pfd., Interborough-Met., Miss., Kan. & Tex. pfd.; Sault Ste. Marie and Northern Pacific, have been substituted for Amer. Car & Foundry, Northwestern, Manhattan, Metropolitan; Mo., Kan. & Texas, common; National Lead, North American, and Tenn. Coal & Iron.

It is impossible to draw a fair parallel between the affairs of 1893-4 and those of 1907-8. The most important factors are unmatched. Crops, for example, were very poor in both 1893 and 1894, while in 1907 they were farily good and bid fair to exceed the ten-year average in the current year. Money conditions were bad in 1893 and that is also true of 1907, but even here the similarity is not great, as the money troubles in the earlier period were largely the *result* of trouble, while in 1907 money stringency was one of the prime *causes.*

When we go back of 1893 for our comparisons we find many disparities. The tremendous effect of the increasing gold supply and other important fundamentals affecting prices were absent or partially absent in the more remote panic periods.

Between the affairs of 1903-4 and 1907 and tentatively 1908, we find a pretty strong similitude. There was a tight-money panic in 1903 as there was in 1907. We had good crops in 1903, also in 1907. In the latter part of 1903 prices began their recovery. The constant influx of new gold, adding $1,000,000 a day to our money and $4,000,000 a day to our banking credits, stopped the panic sharply. All this was duplicated in the latter part of 1907. In 1903 an important legal decision (the Great Northern Securities case) frightened investors. In 1907 we had the Standard Oil affair.

1904 was a Presidential year, so is 1908. Our crops promise well now, as they did in 1904. Wall Street had its choice for President in 1904 (McKinley), and operated on the belief that his election was assured. The same political conditions obtain to-day. In 1903 the percentage of loans to deposits rose to about 105 and specie to loans fell to 17%. This was followed in 1904 by a steady improvement in money conditions. In August of that year the percentage of loans to deposits fell to about 91% and specie to loans rose to about 25%. In 1907 the percentage of loans to deposits rose to 110.67% and the percentage of specie to loans fell to 14.21%. The figures for the two items at the present time will be found on page one of this letter.

There is one deviation which should be noted—the Russo-Japanese war. I am inclined to think this helped stock prices somewhat in 1904. This statement may sound anomalous and to explain it I will quote briefly from my "Forecast of 1904" issued on Jan. 1 of that year:

"There are now, as always, a few clouds on the horizon * * * In my opinion, we are certain to witness a war between Russia and Japan. The date of initial hostilities I do not pretend to guess, but there is little to indicate a peaceful arrangement. War, with its destruction of property and heavy entail, is ordinarily considered

a bear point on securities, but in this case we, as noncombatants, are in the position of hucksters. We will be called on, if war is declared, for materials and commodities at high prices and will be benefited sufficiently to offset the evils resulting from international strife."

The parallel between 1904 and 1908 might be pursued into a hundred unimportant divisions. When the letter mentioned in the first paragraph of this article was issued I received a number of communications pointing out disparities which had not been considered. Most of these criticisms took the form of mere quibbles. The reasoners emphasized divergences which were not salient, or which were at least submerged and nullified by greater factors. It would be impossible to make any comparison of a great economic diversification or reversal where minor differences would not crop out. The great forces, crops, gold production and money, must be given first consideration.

As to charts, I have long been opposed to them where they were employed as a mechanical basis for speculative ventures, but they are convenient at times as the simplest method of picturing history. The limitations of the time and space at my disposal forbid my entering into the analogy offered above in anything but a cursory manner and to the philosophical mind the main suggestions are more interesting than the minute details. In our analogy we must also reflect that we had good crops in 1904 and that good crops in 1908 are only prospective; that the confidence of Wall Street in the election of Mr. Taft appears warranted, but has not yet crystallized into a fact, and that accidents or other disturbing factors might appear at any time to disturb our parallel.

Personally, I have always held that the panic of 1903 was prematurely checked, before the drastic measures necessary to the elimination of weak spots had run their course and that the panic of 1907 was a broken off portion of 1903.

In conclusion I will ask this question:

Is there any good reason why the stock market performances of 1904 should not be duplicated in 1908, and are there not many reasons why it *should* be duplicated?

The General Situation.

There is continued steady improvement in general business, with some slight reversals here and there which may reasonably be regarded as mere fluctuations. The slight decline in the price of copper metal, for example, will turn out to be merely a halt in an advancing tendency. Improvement is shown in steel and iron conditions and a substantial rise will probably be witnessed later on. Pig iron conditions in New England and the South are improving more rapidly than in other quarters, the advance in the South being about $1 per ton. Production is from 60 to 70% of normal. Railroad traffic in all lines is increasing somewhat and several authorities predict an increase in earnings from now on. The recent auction

sales of dry-goods have turned out very satisfactorily and indicate that materials will be readily absorbed at the slightest concession.

The general situation, viewed as a whole, is quite satisfactory.

The Technical Situation.

The technical situation is somewhat improved this week. A number of weak speculative holders have been eliminated on "stop loss" orders and the moderate declines have encouraged professional short sellers. There are still, however, many stop orders both above and below the market, and this condition lends color to the theory that a traders' market, with frequent ups and downs will probably be witnessed for a time. The technical situation shifts quickly and materially under present circumstances and may swing from a strong to a weak or vice versa in a few days.

Crop Conditions.

Crop conditions continue promising. Weather has been favorable to growing crops in most sections, and more than an average general yield is indicated.

Conclusion.

With technical conditions as they are and with fundamentals sound and promising, I adhere to my recently expressed view that we are to have a traders' market for a time. This does not mean that short selling is warranted. It is very bad trading to operate for a possible profit of four or five points in the face of a possible loss of fifteen or twenty. In 1907 I recommended sales on advances during most of the year and now look at the matter just the other way, believing that purchases on declines is the only safe policy. I particularly recommend the employment of the scale order at present, buying good stocks in moderate amounts and averaging in the event of further declines. Still prefer the industrials for final results.

There is enough of manipulation and enough of possible danger in the present situation to make a sharp reversal possible at any time now, but as yet there is nothing in either the basic or technical conditions to warrant a prediction of such a reversal. We should, however, exercise conservatism in operations and be prepared to look on a shake-out as an opportunity rather than a disaster. In referring to a possible decline I speak of course of the more immediate future. As to the final outcome—higher prices—I have little doubt. **No stone will be left unturned to gain knowledge of any important change in conditions and to notify clients promptly if a warning appears warranted.**

August 22, 1908.

Last week I produced charts showing the average daily market movements of forty stocks in the years 1903, 1904, 1907 and 1908 for the purpose of drawing attention to the parallel results of this year with 1904 and the probable continuation of such parallel re-

sults. As the readers of these letters well know, I have maintained for a long time past that the best basis of comparison for the year 1908 was with the year 1904. Most of the recent events in the financial and industrial world, in my opinion, strongly support the validity of this comparison.

Perhaps no stronger reason can be given for the closeness of the parallel between 1904 and 1908 than the fact that one great cause was operating in the former year as it is in the present year that was not as powerful in the years 1893 and 1894. I refer, of course, to the increasing production of gold throughout the world which, during the past ten years, has been having a cumulative effect. One of its most pronounced effects, I believe, is to make periods of depression shorter and recovery quicker.

In this connection I want particularly to draw attention to a fact which seems to me to be extremely significant. According to the theory of the effects of gold depreciation, a declining tendency in commodity prices must be regarded merely as a fluctuation. It is very interesting to note, therefore, according to Bradstreet's Index Numbers of the prices of commodities, that prices on August 1, although they were 11 per cent. lower than on August 1, 1907, were nevertheless 1.4 per cent. higher than on July 1, 1908, and 2.7 per cent. higher than on June 1, 1908, when the low-water mark was reached. Accordingly, the evidence appears to be in favor of the gold theory; and the evidence is not materially weakened by reason of the fact that some portion of the advance since June 1 has been caused by higher prices for such commodities as breadstuffs, livestock, provisions, fruits, hides, leather and textiles—commodities which are peculiarly subject to specific natural influences affecting supply and demand. These higher prices mean a higher cost of living, and to that extent affect the cost of labor employed by corporations. It is noteworthy that iron and steel prices have not suffered any more severely—if quite as severely—as they did in 1904.

Every reasonable indication points to an increase in demand, not only in iron and steel, but in practically every other trade and industry, the basis for such a prospect being the fact that the country will almost surely enjoy good crops this year. It is becoming rather widespread comment that jobbers in most lines are carrying very light stocks, so that an increase in demand, resulting from any such wealth as the crops will yield this year, seems more than likely to cause a good buying movement in nearly every direction.

This I believe to be almost the key to the present industrial situation. Buyers generally, whether they be retailers or jobbers, have held off for a long time in expectation of lower prices for commodities generally than have actually been made. Precisely the same mistaken judgment has been exhibited by the New York banks during the past month or more in refusing to lend money on time, because they expected higher rates of interest, which also have not occurred. The situation conceivably might be a very bad one if the

crops this year were going to be poor. Of course, good crops are not everything in the situation; but when they are taken together with such things as remarkably easy money, a rather general disposition on the part of capital to undertake new ventures in consequence of the reassurance it has had from the Standard Oil decision and the general trend of the political situation so far, I am inclined to lay very great stress upon them.

If commodity prices continue to rise, as there is every indication will be their course, it will not be long before the average business man will be saying to himself, "Prosperity is returning and my profits will increase." He will undertake new ventures again and the same phases of the cycle that have preceded former periods of prosperity will be witnessed. Of course, the return of prosperity will not be without interruption, and in this connection it should be noted that there appears to have been a little interruption recently, as shown by trade reports of the failure of business to meet average enthusiastic Wall Street expectation, and by such things as a reaction in the price of copper metal; but these after all are probably nothing but fluctuations.

Summarized, the business situation may be said to be one in which, though the improvement is slow, still there is improvement. Railroad traffic must certainly be growing somewhat if the reports of the decrease in the number of idle cars and the unofficial statements of railroad men are to be relied upon. Bank clearings do not show very notable improvement, but so far as this index is concerned, the finger points the right way.

Politics.

The political element of the situation, singularly enough, does not justify the ominous predictions of a series of Bryan scares that were so freely indulged in last Spring, and this may readily be construed as all the more singular in view of the fact that Mr. Bryan's utterances are of an ultra-radical character. Like most other evils that were flaunted before our eyes some months ago, the dangers of the political situation must have been discounted to a great extent in the stock market at that time.

A Remarkable Money Market.

There is one phase of the present situation to which very small attention has been given recently. That is, that the crop-moving demand for currency is late; that the banks at New York go into the fall season with large surplus reserves, and, as a natural consequence of these facts, that time money rates covering what is ordinarily the tight money period of the fall, remain extremely low, being 3½ to 3¾ per cent. for five to six months' money. That this last fact is a stock market influence of great importance must be admitted, when it is realized that a great many stocks, the dividends upon which are reasonably safe at their present rates, yield income returns much better than can be obtained by using money in other ways. It seems almost inevitable, if the continuance of good divi-

dends on many stocks shall appear increasingly sure as time passes, that the prices of those stocks will rise to levels at which they will yield income returns more nearly in conformity with average rates for the use of time money. This is a very simple proposition, but probably one that is more frequently overlooked than any other factor in connection with stock prices. In my judgment the money market at New York, this fall, will be easier than for a good many years past. The fact also that good crops will aid us in obtaining and maintaining control of the international exchange markets, so that we can command a large portion of European capital, should it be necessary, merely makes the monetary situation the more favorable.

The Technical Situation.

The technical situation which I thought had improved last week, I think has still further improved this week. If, last week, light-waisted speculative holdings of stocks were shaken out, this week's market has greatly encouraged operations for the decline. The Street has been full of rumors to the effect that banking interests were bent upon discouraging the bull campaign advertised by the Boston operator. There have also been rumors that another plunging operator, who made a good deal of money in the bear market last year, has been trying his hand again on that side of the market. Just what degree of veracity such rumors have I do not pretend to know. I believe, however, that on the soft spots this week there has been some good quiet buying of stocks on the scale-down basis, and that the buyers are undisturbed by the fact that stocks go down a point or two after purchases are made. Whatever origin the bearish operations may have had, they do not produce very serious effects on prices, and the good buying referred to, if it continues, will probably make stocks moderately scarce in the near future.

Crop Conditions.

Weather conditions continue remarkably favorable to growing crops throughout most of the country, a fact which has met with some reflection in the grain markets.

Conclusion.

There does not seem to be sufficient change for the worse in any fundamental condition to warrant the expectation that it will have more than an ephemeral effect on the market, and any such slight change in a fundamental condition I think is likely to be reversed very shortly. Meantime, for the reasons pointed out above, I believe the technical situation of the market is becoming stronger. I repeat what I said last week, that it is very bad trading to operate for a possible small profit in the face of a possible large loss. I am still inclined to regard any fair decline in the market, not as something to become apprehensive about, but as an opportunity to buy stocks. This opinion, of course, is the result of my conviction that the ultimate outcome will be higher prices for nearly all securities.

August 29, 1908.

The wildly manipulated market of last Saturday has been the principal topic of conversation during the week. The importance of the matter has been grossly magnified in the public eye, partly because the ordinary speculator is of a nervous disposition and partly because some writers on the municipal press have handled the matter in a reckless manner which reflects either crass ignorance or unreasoning prejudice. One daily paper refers to the matter as a gamble for $150,000,000, referring to the total value of the shares handled as if these values were involved in toto in the transaction. In point of fact the money involved in the "washing" operations amounted to the commissions and stamp tax on 750,000 shares of stock, most of which was handled at the rate of $2 per hundred. Some additional losses may have been suffered through the failure to repurchase the stocks as low as those at which sales were effected.

The Stock Exchange has also been called on to endure criticism from the ignorant or from demagogues but if the affair is traced step by step from Saturday to the present time no fair-minded man can deny that the action of that body was prompt and efficient and that the governors of the Exchange as well as the better class of brokers condemned unqualifiedly an affair which they were not cognizant of in its inception and which they could not have prevented.

Before any knowledge as to personnel of the Saturday manipulators was available and while the whole matter was shrouded in mystery, the officials of the Exchange expressed their intention of conducting a rigid investigation as to the cause of the flurry. This was done without reference to the solvency of interested parties. When the individuality of the manipulators was known, the banks promptly refused to accommodate them and they were at once suspended from the Stock Exchange.

So far as the culpability of the brokers who executed orders on Saturday is concerned it may be said that they could have no knowledge of what was going on. It is customary for large firms to distribute their orders to numerous other houses for execution at the rate of $2 per hundred and by spreading the business about among half the members on the floor a house in good standing could do a very large business without exciting suspicion. The unusually large volume of business would not necessarily arouse suspicion on the part of any individual broker as he would have no immediate means of knowing that all the business was coming from one house.

The Stock Exchange and everyone connected with it did everything that could be done to rebuke and punish the offenders and in fact the affair is bound to have a salutary effect, as it will warn others. It would be impossible to find any club, organization or other large body of men who are not occasionally subjected to annoyance by the overt acts of an individual and it is ridiculous to condemn the whole body because of such an incident.

The difference between the above statements and those of certain critics is that I know what I'm talking about and they either don't or don't want to.

It is always the case that after a spasm like the one in question, timid operators grow apprehensive as to the standing of every brokerage concern in Christendom. I offer the opinions given above in order to reassure my clients. Brokerage houses generally were never in a stronger position than at present.

About the only factors considered adverse at present are a possible Bryan scare and agitation of tariff revision. Both these factors are in my opinion overestimated as to possible effects on stock prices.

In regard to the political phase of the market I have never been able to discover in history but one instance of the character or acts of an administration having potency to change the course of security prices materially. I refer, of course, to 1896. Even in that year the silver issue was only a contributory factor and as soon as money conditions improved and good crops were assured the market started on a long upward swing. In August, 1896, the percentage of loans to deposits stood at 110% and specie to loans about 10%, a very bad state of affairs. This was the month in which lowest prices were made in securities. Before the end of the year specie to loans had risen to 18% and loans to deposits had fallen to 92 and good crops were a certainty. The market advanced materially from August to November before election results were known. Bryan was the bugaboo in 1896, but the matter is different now—the same man, but not the same issue. In fact, we have no party issue at present—the platforms are almost identical.

Early in 1907 a few students began to point out grave dangers in the general situation. Their reasons were given, but no stress was laid on political influences. There were other and greater forces at work. It is fashionable at present to lay our panic at the door of the administration. While no one will gainsay the fact that some damage resulted from ill-timed attacks and utterances at a time when reassuring words were needed, nevertheless the major portion of the panic was due to forces which Mr. Roosevelt had no power either to produce or prevent. Personally, I was able to forecast this reversal, not because of any particular acumen or perspicuity, but because I was fortunate enough to have the counsel of careful observers who take infinitely more pleasure in correct deductions and analyses than in money getting. It was glaringly apparent early in 1907 that our money affairs were getting into very bad shape. The percentage of loans to deposits had risen to 106% and the percentage of specie to loans had fallen to 16%. Our imports spelled "extravagance" in letters as big as a box-car. Every sign of danger was out and by the same token, these signs were ignored. Early in March, 1907, I called particular attention to Mr. Theodore Burton's very able study of the subject as set forth in his

book "Crises and Depressions." In speaking of crises Mr. Burton offers the following preceding indications:

"This preceding period is characterized by well-defined indications, some of which develop contemporaneously, but, which, so far as they are distinct in time, occur in approximately the following order:

"1—An increase in prices, first, of special commodities, then, in a less degree, of commodities generally, and later of real estate, both improved and unimproved.

"2—Increased activity of established enterprises, and the formation of many new ones, especially those which provide for increased production or improved methods, such as factories and furnaces, railways and ships, all requiring the change of circulating to fixed capital.

"3—An active demand for loans at slightly higher rates of interest.

"4—The general employment of labor at increasing or well-sustained wages.

"5—Increasing extravagance in private and public expenditure.

"6—The development of a mania for speculation, attended by dishonest methods in business and the gullibility of many investors.

"7—Lastly, a great expansion of discounts and loans, and a resulting rise in the rate of interest; also a material increase in wages, attended by frequent strikes and by difficulty in obtaining a sufficient number of laborers to meet the demand."

Nothing about politics: although Mr. Burton is a prominent politician. All these things were in sight when our decline began but the laity could not believe in a great decline because they saw only what was visible to the naked eye. They saw the extravagance, the great railroad earnings and all the other fair-seeming appearances and construed them, not as evidences of inflation, but as evidences of unusual prosperity. They tried to speculate on what was known.

I revert to these facts partly to impress the necessity of something more than superficial and partly because conditions today are entirely different,—practically reversed. People could not understand why prices were declining in 1907 and they cannot understand why they are advancing now. In both cases the movement can be attributed to the anteriority of stock prices.

I will therefore venture the opinion that with good crops and good business (the latter is largely dependent on good crops) we will have higher stock prices, even if Mr. Bryan is elected. Personally, I do not think he will be, but what I don't know about politics would fill a vast volume. Mr. Bryan's election or prospects of his election would no doubt cause a temporary reversal, nothing more.

As to the attitude of foreign investors under such circumstances they would hold aloof only long enough to see that the dividends on securities were fairly assured and then return to our market.

As to tariff revision, it has already been pointed out in a recent special letter that while certain securities would find earnings adversely affected by revision, others would be benefited. Railroads as a group would probably gain about 10 per cent. in value, copper stocks would be slightly benefited. The limitations of space forbid an extended discussion of this factor, but copies of the letter mentioned above may be had on application.

The General Situation.

The general situation is showing more visible signs of improvement than has been the case heretofore. This is particularly impressive when we consider the fact that August is always the low business month of the year. Railroad gross earnings are still materially below those of last year, but will show improvement from now on. It should be remembered that the figures now coming in are a month or more old, and when both gross and net are known, it is probable that the showing will be much better than is shown by gross alone.

In the steel and iron trade is a gradual increase in business and a generally hopeful feeling. Rogers, Brown & Co. in their review of August 22 say:

"The unanimity of opinion as to the return of normal conditions is remarkable. The only point on which there is any disagreement is as to just when the return will set in."

The steel plants of the country are now working about 60 per cent. of normal and it is the opinion of the most competent judges that the improvement now going on will continue throughout the year.

July exports show a falling off as compared with 1906 and 1907, but this is more than offset by the decline in imports. Exports for July, 1908, were $103,200,000 as against an average for July, 1906 and 1907, of $120,100,000. Imports for July, 1908, were $86,400,000, as against an average for the same month in 1906 and 1907 of $113,700,000.

In the mercantile trades there is evidence of a disposition to buy more freely. This will be greatly accentuated a little later on, when buyers have their attention directed to the fact that commodity prices, which have shown a downward trend recently, have again resumed their upward swing.

Copper metal has steadied after a limited reversal in prices, which was wholly in the nature of a fluctuation or reaction, and greater activity among consumers warrants the belief that prices will again advance in the near future.

It is practically certain that we will witness an easy money winter. Exchange has almost reached the gold importing point this week, and it should be noted that so far bills have been drawn

largely against security purchases, and that our cotton bills are still to come.

The general situation is normal and quite satisfactory.

The Technical Situation.

While the short interest has been considerably reduced during the week, this is, in my opinion, about offset as a weakening factor by the fact that the marginal long interest has also been reduced. That is to say, the general volume of outside business has shrunk both ways. A great deal of selling occurred Saturday on stop orders, and on Monday timid holders sold freely to escape getting mixed up in a wild market. More recently attractive profits have induced selling. All the offerings in the three classes named have been readily absorbed and the important buyers show no inclination to dispose of holdings as yet. The events of the week have been a good test of the solidity of the market and a marked demonstration of the statement made a few days ago that so long as fundamentals continue sound, mere incidents will have no power to reverse the current of prices.

The technical situation I consider strong.

Crop Conditions.

There is little to add to the weekly crop letter of August 27. Weather has been favorable in the corn belt and the crop is now in no danger except from frost. The floods in the south have caused some damage to cotton, but this is confined to a limited area and will not materially affect total productions.

Conclusion.

Nothing in the situation warrants a change of opinion as yet. The character of the present buying, the scarcity of floating securities, the good crop prospects and an abundance of idle money loaning at rates below the income yield of good securities, combine to warrant the expectation of higher prices. There is now, as always, the possibility of a very sharp reaction extending to an average of five points or more, provided the public become excited and begin taking the market away from the men who are accumulating stocks. Sooner or later this condition is bound to be reached, but there are no signs of it as yet. I do not think, given proper vigilance and sources of information, there will be much difficulty in at least approximating the finale.

Continue to recommend purchases of good stocks on every little dip or on the scaling principle. In the industrials, Amalgamated and Anaconda look promising. American Car & Foundry and American Locomotive will be taken up in time and will reach higher figures. In the dividend-paying rails, I still like Reading, Union Pacific, Pennsylvania, Atchison and Louisville & Nashville. In the low-priced rails Erie, M., K. & T., Chesapeake & Ohio and Rock Island are attractive.

September 5, 1908.

While these advices have, since September 2, suggested standing aside temporarily, it should be understood that no bearish views are fostered. The advice was not based on any fundamental weakness in the situation, but on several wholly technical points. The first point discovered was some quiet distribution of leaders in the last hour Wednesday and so far as could be learned the sellers were not switching into other stocks. The inclination appeared to be to allow the market to drift for the time being. It was also found that a great many stop-loss orders were being placed just below the present level of prices by semi-professional operators who had secured large profits during the recent advance. This, of course, weakens the technical situation and renders the list vulnerable to bearish attacks.

There is another point which can only be offered theoretically. It has been my opinion for some time that low-priced railroad and industrial stocks would be taken up before long, while the dividend payers underwent a period of comparative dormancy. It is a matter of speculative history that the first step in a bull campaign is to depress the security or group in which buying is contemplated. This is natural and logical. It would be very difficult to accumulate a large line of any stock to advantage in an active and advancing market. If this were attempted the public would help buy the stocks and not only make the insiders pay higher prices but the very presence of this element spells danger. On the other hand a sharp drive accompanied by the evil rumors which are so easily manufactured and promulgated brings about an ideal condition, i. e.: frightens the weaker holders into selling, or at least refraining from purchases and encourages a short interest. A little reflection will show the immense advantage to be derived from the process described.

It is a fact, however, that there has recently been some selling of stocks which have enjoyed a great advance and considerable buying of the dormant issues without reference to the possible action suggested above. This rotation, however, has not yet been important as to volume.

We may also consider another point. If the distribution of the stocks showing large profits is to be carried very far we will find support in these issues from time to time in order to keep new buyers in good spirits. Personally I do not think any extensive liquidation is contemplated and that stocks sold now for manipulative purposes will be repurchased on any marked decline.

It has also been found that in the last day or two the technical situation has been somewhat injured by the elimination of a good many short sellers and recently the bearish operators have been very timid about making new short commitments. The severe punishment which has been meted out to them in the last few months has weakened both their resources and their nerve.

In view of the conditions outlined above I think there is a possibility of a considerable reaction or at least a flat level of average prices, which would only be aggravating to the active operator. We have had a long-continued advance now, and at the close of business on September 2 average prices were only .56 of a point below the highest of the year.

I will reiterate the statement that there is nothing basicly wrong in the situation, but that under the circumstances we are warranted in acting as observers for a time.

Among the three or four great influences which determine the major movements of the stock market, the important swings extending over a period of years, there is one to which these letters have not yet called especial attention, namely, the Surplus Deposits of the New York banks.

Surplus Deposits—the excess of deposits over loans—govern the rate of interest on loans.

When deposits are greatly in excess of loans, as in 1894 and part of 1895, in 1897 to the first part of 1899, in 1904, and from April to September, 1908, rates for both call and long-time loans are low and money can be borrowed almost on the borrower's own terms.

On the other hand, when deposits are less than loans, and, as in the chart below,* when Surplus Deposits are below zero, interest rates are high or prohibitory, the loaning power of the banks is practically exhausted, and all new undertakings come to an end. Such periods occurred in 1893, 1896, 1903, 1906 and 1907.

The ten stocks, whose average price is represented in the dotted line above, are mostly high-priced rails, selected as among those most likely to be affected by the ease or stringency of money, namely:

Central of New Jersey,
Chicago & Northwestern,
Chicago, Milwaukee & St. Paul,
Cleveland, Cincinnati, Chicago & St. Louis,
Delaware & Hudson,
Illinois Central,
New York Central,
Pennsylvania,
Reading,
Union Pacific.

In a general way, it may be said that great bull markets germinate in periods when Surplus Deposits are large. Bear markets and panics take their start in periods when Surplus Deposits have fallen to the zero mark or passed below it.

If Surplus Deposits and accompanying rates of interest were a single force, operating unchecked and without any offsetting or counteracting influence, stocks would be expected, in any chart of their movements, to follow closely the course of Surplus Deposits.

* This chart appears on page 36 of the Book of Charts issued in connection with this volume.

The whole country would buy stocks when money is cheap and would sell stocks when interest rates were so high as to make it less profitable to own stocks than to have the cash; and the buying and selling would carry stocks along in parallel lines with the course of Surplus Deposits.

But, of course, two or three other prime factors are always at work in the stock market, namely, the influence of large or small crops, the state of general business, and large or small railroad earnings.

In 1894, the banks were full of money and interest ruled from ½ to 1 per cent. on call, most of the year, and time loans from 2 to 3. A great bull market would have started in 1894, were it not for offsetting influences. The Wilson Tariff bill was enacted in 1894, depressing manufactures. Labor was on strike in all parts of the country. The Treasury gold reserve was being depleted by private hoarding and by heavy exports of the metal. The situation did not clear up until 1896 and then a great bull movement began.

Per contra, it is marvelous that the panic of 1907 was so long delayed. The loaning power of the banks practically vanished entirely early in 1906, a fact which, at any rate, had this effect that stocks have never since risen as high as they were in January, 1906, when the stock market stood on a pinnacle, higher than ever before known in the history of the United States. What delayed the smash of 1907 was the great prosperity of business throughout the country, the good crops and enormous earnings of railroads. But when, finally, early in 1907, the banks knew they were beaten in the struggle to supply funds for both new and old undertakings, they were obliged to stand aside and let matters take their course.

The great accumulation of Surplus Deposits in 1908 is now having its effect on stocks, as may be seen from the chart. Business is yet depressed, but is better. The crops are good. Traffic is increasing on the railroads and a return of confidence, inspired by the election of Mr. Taft, this Fall, seems the only thing necessary to carry the stock market not only to the high level of 1906, but even beyond that in the next two or three years.

The General Situation.

The general situation is showing every evidence of healthy and sound improvement. This betterment is pronounced in the steel and iron business. In this regard Rogers, Brown & Co., in their letter of August 29, say in part:

> "There is a steady run of orders for shipment over the balance of this year, and within the past few days several contracts have been made calling for deliveries through the first quarter of next year. It is very difficult for buyers to obtain any concessions in price, although now and then reports of a few sales at low prices crop up. These few instances are at once seized upon by some prophets of evil as evidence of a gen-

eral weakness in the situation, whereas the fact is that the pig iron market is daily becoming healthier and stronger.

"A number of furnaces in the South have put their prices for No. 2 foundry up to $13, and one large interest in Virginia has called a halt on sales. The aggregate of the sales and stock on hand of the furnaces directly contributory to this market shows the surprising fact that the tonnage of orders is over three times as large as the tonnage in stock. Orders are increasing and stocks are decreasing. This condition, if continued, cannot help but tend to a radical betterment of the general situation, in spite of the few isolated evidences of the wish of some sellers to turn pig iron into money quickly."

About the only factor adversely commented on at present is the poor showing of railroad gross earnings. But the exponents of this bearish item do not appear to consider the fact that the monthly reports now coming to hand cover the month of July and that the annual reports which are just beginning to appear are also in the nature of historical records of a panic year. Nor is the new system of accounting given due consideration. In truth there is much that is encouraging in recent monthly reports, as in most cases it is shown that while gross has suffered severely, the net results are not so bad. This reflects rigid economy—economy which will endure and be helpful after gross begins to rise. The reports for September and thereafter will probably be very encouraging.

Mercantile lines are showing decided improvement. Conditions in the coal and lumber trades are stronger. Bank clearings for August are satisfactory and show that we are rapidly approaching normal business conditions. Average daily clearings show a loss of only 8% as compared with August, 1907. There is a revival of interest in copper and while the policy of buying from hand to mouth is still observed by many consumers, it may be said that the United Metals Selling Co. is the only concern that has spot or September copper for sale. Calumet and Hecla, the next largest producer, is out of the market.

The improving tendency in general business is quite satisfactory.

The Technical Situation.

The technical situation has already been covered in the introductory portion of this letter. It has been considerably weakened during the last few days. This condition may change very quickly through the elimination of weak holdings on stop orders or voluntary selling, as well as by renewed bearish operations. The matter will be carefully watched.

Crop Conditions.

There is nothing to add to the Special Crop Letter of September 3. With the exception of a portion of the corn and cotton, our crops are made and a large aggregate yield is practically assured.

After October 1 my expert will be called in and the Thursday crop letters discontinued. Any new developments after that date will be covered in the daily and weekly letters. As the new annual reports are now coming to hand, the crop letters will be supplanted by analyses of such reports weekly.

Conclusion.

Under present circumstances I suggest a neutral attitude for the present. If there is reason to change this view clients will be promptly notified. I do not think there is any danger of a long-continued or severe decline, and it will be safe to open scale orders in such stocks as Erie, American Locomotive, M., K. & T., Pennsylvania, Amalgamated Copper, Atchison, Rock Island preferred, and American Car & Foundry. There are many other good bargains on the list, but those mentioned now appear to be in the best statistical position, considering price levels.

According to custom, a chart showing daily average stock market movements for 23 Active Rails, 18 Active Industrials and the combined average of the 41 stocks, for the previous month is presented below.*

* This chart appears on page 8 of the Book of Charts issued in connection with this volume.

September 12, 1908.

Some months ago when stock prices were much below the present level, pessimistic views as to the future course of security prices were entertained by a majority of the public and semi-professional speculative element. The rank and file of operators who make the serious and prevalent error of trying to reconcile stock prices with existent conditions could not see nor be made to see that stock prices could, and possibly would, advance in the face of bad general conditions, and even in the face of the certainty that such conditions would continue to grow worse. A few students who had fully assimilated the impôrtance of giving primary consideration to the anteriority of stock prices realized the fact that if business was to improve materially six months or a year later, the stock market would anticipate and discount such improvement before it was made visible by statistics or other information. With a correct understanding of this phase of the question, the next step was obvious, i. e., to direct attention to the fundamentals by which security prices are influenced. As it gradually became evident that crop prospects were good, that money was easy and bid fair to continue in plentiful supply and that the drastic processes of dividend cutting, reorganization, etc., had strengthened the financial structure by the simple process of eliminating weak spots, these investigators had no hesitation in recommending purchases of securities. They were right. They could not have been wrong except because of careless deductions or accident.

The above statements are made partly because they offer food for profitable reflection and partly for the purpose of controverting the statements which have recently been heard on all sides that the advance of 1908 is due to rank manipulation and is not warranted by conditions. Any writer or observer who attributes the material and comprehensive advance of the last eight months to manipulation merely exposes his own ignorance and continued emphasis of this view shows nothing but pertinacity in error. The advance has been fully warranted. Our crops are good, general business is reviving, the records of exports and imports show that a great lesson in economy has been learned and last but not least, the assured income return on many standard securities has been so much above the price of the usage of money that an equilibrium was bound to be established, and so far it has been only *partially* established.

But just at present there is another phase of the question to be considered. Our securities have advanced pretty steadily for a long period in anticipation of improvement which was not visible to careless prophets. Now this same element is becoming convinced because signs of betterment are more tangible and they look for an advance in stocks because of literal evidences which have already been at least partially discounted. And, as has been stated, manipulation could not have produced the recent rise in stock prices, but it is a fact that there are more evidences of manipulation right now than at any time during the year. The final result is that many observers who insisted that the *genuine* advance was based on manipulation, now attribute *manipulative* advances to basic improvement. On error's head errors accumulate—Ossa on Pelion.

The advance in stock prices since January 1, 1908, has been about 20 points (from 60.12 to 79.32). This followed a decline from the extravagant figures established in January, 1907, of about 36 points for the year (95.84 to 60.12).

This movement may be made more clear to the eye by the following chart:*

I should like to have it understood that nothing in the foregoing remarks stamps me as a bear. On the other hand, it is my opinion that stocks will sell higher—much higher; but this view is based on the belief that our business affairs will continue to improve to an extent not indicated by what is now visible. But before that improvement takes place we may be subjected to a brief period of inanition. The psychologists have a very apt term for such a period; they call it a "plateau," and it appears to be a natural law that progress cannot be made in one direction for a great length of time without stages of halting or reversal. This is certainly true of the price movements of securities or commodities of any kind.

But my recent advice to go slow in this market is not founded on psychology or on a lack of confidence in the ultimate outcome of

* This chart appears on page 19 of the Book of Charts issued in connection with this volume.

security prices. I have found during the last ten days that leading operators who purchased stocks at very low prices have been talking bullish out one side of their mouths and giving selling orders out of the other. There has been no hurry about this class of selling, in fact a good portion of liquidation was on a scale up in such stocks as Union Pacific, Reading and Southern Pacific. Coincident with this selling there has been some buying of Erie of a very good character and while the buying of American Locomotive has been on declines only, the character has been excellent. The depressing of a stock for the purpose of facilitating accumulation is an old trick. It was done in Erie not long ago, and earlier in the year in Amalgamated, Missouri Pacific and other stocks.

The General Situation.

The principal events of the week have been the decision as to the unconstitutionality of the commodity clause of the Hepburn law; the passing of the common dividend on American Locomotive; the right-about-face in foreign exchange, which veered quickly from a price suggesting gold imports to one suggesting exports, and the governmental crop report.

The decision in the Hepburn case is, of course, a favorable factor, but as Wall Street has long believed, basing their belief on the opinions of eminent legal lights, that the commodity clause could not stand, the matter did not come as a surprise and has probably been discounted.

The status of American Locomotive has been already discussed in a recent daily letter. The corporation has shown an average margin of safety of about 15% since its inception, and the annual report for the fiscal year ended June 30, 1908, shows 11.10% applicable to common dividends. It is true that equipment companies are the last to feel improvement in business conditions after a period of depression. However, the anteriority of stock prices already referred to will soon show in these shares. It is pretty certain that six months from now equipment companies will be running at full capacity.

The advance in exchange is rather hard to diagnose clearly as it is due to a combination of circumstances rather than to any single factor. Europe has sold our securities to some extent recently; the supply of cotton bills has been very small and short covering has also lent temporary strength to exchange. There is no cause for alarm in the situation. Money will be the least of our troubles this year.

General business shows steady improvement in all directions. Building operations are being resumed in many localities, particularly in the South and West. Railroads show more inclination to purchase cars than has been apparent since last year. The steel and iron trades are making satisfactory progress. Eighteen iron furnaces have been opened since September 1, and, according to

"The Iron Age," the estimated August output of pig iron (1,348,-831 tons) is the largest since the depression which reached the acute stages December last.

The advance in call money rates late in the week was due partly to demand for funds for crop moving purposes and partly to the sharp rise in foreign exchange. By comparison with the 1% rate which has ruled recently, 2½% or 3% looks high, but is, in fact, low for this time of year.

The general situation is healthy and satisfactory.

The Technical Situation.

The technical situation has been somewhat weakened by the introduction of numerous stop-loss orders just under the market and also by more public participation than has been witnessed for some time. This buying is not of large volume as yet, but in the aggregate there has probably been quite a bit of switching from strong hands to weaker ones. Of course, this weakness in the technical situation might be very quickly eliminated by a sharp dip, which would clean out the stop orders and incite short selling.

At the moment, the technical situation is not pronouncedly strong.

Crop Conditions.

There is very little evidence of any change in crop conditions. There have been some complaints from the corn and cotton belts, but such reports are perennial and do not appear to have any foundation in fact at present.

Conclusion.

In my opinion a neutral attitude is the safest at present. This may be modified by selling holdings of high-priced stocks on hard spots and picking up the low-priced shares on breaks with a view to scaling in the event of a continued decline. I do not anticipate any serious break just at present, but believe the market is being helped along in order to enable the selling of stocks which have already advanced materially and the purchase of hitherto dormant issues. My position is purely a temporary one, and if any change is found in the program I hope to detect it. Would particularly recommend American Locomotive, Erie, M., K. & T. and Rock Island on all soft spots. Unless matters change materially these high-priced dividend-payers can be bought at a lower level before long, regardless of advances of a point or two in the interim.

September 19, 1908.

As is always the case, the declining tendency of stock prices during the week has upset the calculations of many operators, and the speculatively inclined are much confused and perturbed. As is again always the case, specific causes for a wholly natural

reaction are assiduously sought and found. There was never in my recollection a three-point movement based upon the great fundamentals which really make prices, which was not attributed to some one certain influence. It is easy enough to find these excuses. We can hear twenty bull arguments and an equal number of bear arguments in an hour's conversation in Wall Street. When the market declines the bear points are emphasized; when it advances the reverse is true. In many such cases, actual influences worthy of consideration remain wholly unchanged and we find in the course of time that the legitimate trend is quickly resumed and that our reaction was due entirely or principally to technical conditions. This, in my opinion, is the situation at present. In these advices on Sept. 2 it was stated that good selling had been detected and a day or two later that the technical situation was weakened by the introduction of too many stop-loss orders and a partial elimination of the short interest. Under these circumstances it was deemed prudent to recommend a neutral attitude and the acceptance of profits. I call attention to this fact in order to show that the advice given was not based on political fright or rumors of disaster, but entirely on the probability of a set-back following a long advance. To support these statements it may be said that during the last six months or more the market has, in its upward trend, ignored all items of bad news. I do not dispute the fact that ephemeral and unimportant events frequently cause changes of a point or two either in individual stocks or in the general list, but with such movements we are, as intelligent speculators or investors, not concerned.

The spectre whose icy hand has gripped the heart of the speculator for the last week or two is called politics. I think that under present circumstances this factor is much over-estimated as to its bearing on future security prices. If some great issue was at stake, as in 1896, we might be perturbed, but such is not the case at present. The tarriff issue is there, of course, but why we should anticipate a decline in railroad stocks, which would be benefited by the proposed revision, or certain industrial stocks which are not affected (Copper shares, for example) because we fear a reduction in duties, is beyond comprehension.

In a letter issued on June 13, 1908, I undertook to show by a series of charts that presidental years cannot, so far as statistics show, be considered bear years. It was shown by these exhibits that from June to November stock prices advanced in 1880, 1888; 1900 and 1904; declined in 1884 and 1896, and were neutral in 1872, 1876 and 1892. In all cases, with the exception of 1896, the upward and downward movements were explained by fundamental factors, such as crops, more satisfactorily than by political influences. I cannot enter into details, owing to the limitations of space, but copies of the letter referred to may be had on application.

Reducing the matter of politics to a personal question, look at

it in this light: If you had $100,000 to invest in securities under present circumstances, what would be your first concern; the future business prospects as represented by signs of steady improvement; by crop prospects, bank clearings, trade balances, etc., as well as the ability of your prospective purchases to pay and maintain a satisfactory rate of income return—or the political situation? My own answer would be most decisively the first division of the question so long as no paramount issue is involved in the coming election.

As bank clearings and all other strictly fundamental factors are largely based on our ability to produce and sell at good prices the products of the soil, it is my opinion that an examination of fundamentals should begin with these. There is no necessity for argument or individual asseverations on this head. The matter is one of statistical research. Let us take for the most important example our cereal and cotton crops and determine where we stand.

The statement is frequently made that the population of the United States will, in time, consume all of its cereal productions, and there will be discontinued a source of supply of breadstuffs that has long been a boon to Europe. It is an accepted statement that our growth in population will continue. Looking at population and grain production from a statistical standpoint, and using the best statistics available, the following presentment is in proof of increasing domestic needs without corresponding increase in supplies. In a comparison of 1880 with 1908, a period of twenty-nine years, our population shows increase of 38,756,275, or 77.2 per cent., while our field products of wheat, corn, oats, rye, barley and buckwheat, 1,586,098,499 bushels, or 58.3 per cent. The greater home requirements have lessened the surplus to spare to Europe, the price of which is determined in competition with other surplus countries. With a gain in population greater than the gain in cereal productions its continuance will bear out the introductory statement. The average of our population, going back twenty-nine years, to 1880, is roundly 69,000,000, and the average of the six crops mentioned 3,210,431,626 bushels, or 46.54 bushels per capita. In 1880 the per capita production was 54.19 bushels, and in 1908, as crops are now indicated, 48.41 bushels. Looking to the past to see the variations in production, I have prepared the following table, giving the per capita production, in bushels, of our principal cereals:

	Wheat.	Corn.	Oats.	Rye.	Barley.	Buck-wheat.	Six Cereals.
1880	9.94	34.24	8.33	.49	.90	.29	54.19
1890	6.42	25.05	8.57	.41	1.07	.20	41.72
1900	6.90	27.81	10.69	.32	.78	.13	46.62
1908	7.50	29.19	9.29	.35	1.90	.17	48.41

The total of the six crops, going back to 1880, was smallest in 1881, at 2,063,029,500 bushels, or 40.45 bushels per capita, and largest in 1906 at 4,854,514,837 bushels, or 55.5 bushels per capita. Since 1880 to 1908, the several crops show increase of 168,246,138 bushels of wheat, or 33.8 per cent.; Corn an increase of 878,162,457 bushels,

or 51 per cent.; oats, 408,022,620 bushels, or a gain of 97 per cent.; rye a gain of 7, 025,171 bushels, or 29 per cent.; barley an increase of 124,268,654 bushels, or 275.1 per cent., and buckwheat the small gain of 373,465 bushels, or 2½ per cent.

The world's crops of wheat have been rapidly expanding in recent years, more so than the world's population, with their distribution due to a greater consumption at the expense of some other foods. At the greater production of over ten per cent. in five years, we are now entered on a new crop that has no important remainders from past crops to supplement it and is not indicated for any more than the needs to be supplied by a succeeding harvest. And herein lies the strength of the present prices secured. Traders recognize that all wheat will be wanted and there will be no depressing superfluity to the detriment of price. In reasoning from just what is here briefly given we have statements from wise men that the future will have a difficult food problem; a problem of more concern to Europe, now so much in dependence, than to America. But the time is far in the future and of interest only in contemplating what *may be*. The rise of Argentina as a granary for Europe has been fortunate. The country is new and large and admits of great expansion in producing wheat and corn. It may be said that our loss in feeding Europe has been Argentina's gain and has not been of injury to us. But for Argentina, our consumers, outnumbering our producers more than ten to one, would have paid higher prices. Our own farms are annually growing more numerous and smaller. Naturally, the less a farmer has in cultivation the better the care bestowed and the better the result. Our average yield of wheat per acre is not what it should be. The old farms of Europe, instead of producing less from an impoverished soil because of long usage, in many sections, and in England particularly, declare yields double the average of our home farms which are comparatively in virginity. This leads to belief in great future improvement on our part. The difference is in the *farming*. Our producers are beginning to see this, and the official departments, National and State, are active in urging better methods for better results. Our acreage in wheat is not capable of much increase and our greatest gains must come from greater yields on the present area. In seven years the three Northwest States have increased their acres in wheat but 7½ per cent., while the general increase in all their crops has been 40.4 per cent. The days of bonanza farming are about over and the days when you could "tickle the earth and it would laugh in a harvest" are of the past. Intensive farming is engaging attention, to the end that our higher priced lands may afford a fair return on the invested capital. There is great encouragement in the current prices and the probability of their long maintenance, since the world's crops are not such as will admit of important remainders a year hence. It needs more than a single large crop to restore reserves and bring depression. Low prices come from abundance.

Our exports in the decade ending 1895, of roundly 1,399,000,000

bushels wheat and flour, were thirty and one-half per cent. of 4.560,477 bushels from the crops of that period. In the following decade 1,814,000,000 bushels out of crops aggregating 6,471,000,000 bushels, or about twenty-eight per cent. Since 1905 the falling off is in greater percentage. In the following table is presented the per-capita production of wheat and corn for twenty-nine years:

Year.	Wheat.	Corn.	Year.	Wheat.	Corn.
1880	9.94	34.24	1895	6.69	30.84
1881	7.41	23.28	1896	5.98	31.91
1882	9.60	30.80	1897	7.19	25.80
1883	7.84	28.88	1898	8.99	25.62
1884	9.34	32.70	1899	7.17	27.21
1885	6.36	34.48	1900	6.90	27.81
1886	7.97	28.14	1901	9.48	19.28
1887	7.78	24.71	1902	8.34	31.44
1888	6.93	33.14	1903	7.82	27.51
1889	8.00	34.47	1904	6.65	29.73
1890	6.42	25.05	1905	8.30	32.43
1891	9.56	30.64	1906	8.63	34.36
1892	7.87	24.85	1907	7.26	29.69
1893	5.91	24.09	1908	7.50	29.20
1894	6.72	17.70			

But while we are considering the products of the soil we must look particularly to cotton, our great money crop. This important crop has made wonderful progress. The crop of 6.605,800 bales in 1880 has advanced to an expectation of 13,500,000 bales this season, or 104.4 per cent. gain. In 1880 the per capita production was .131 of a bale; in 1890 it was .138 of a bale; in 1900 it was .134 of a bale, and in 1907 it was .129 of a bale. In 1908 it indicated .151 of a bale. In five years, 1896-1900 inclusive, the crops aggregated 50,991,000 bales. In the five years following 55,509,000 bales; an increase of 9 per cent. Since 1880 the export takings have ranged from 63.78 per cent. of the crop in 1881 to 74.23 per cent. of the crop in 1894. The average yearly takings for export have been 67 per cent. of our production, and from this percentage there has been small departure since 1880. The demand has kept step with enlarging crops. Continued, as we have reason to expect it will, the exports from the crop now entered on should approximate nine million bales, and at a low price, bring to us from abroad at a very low estimate $400,000,000. In twenty-five years the yearly price of middling cotton in the New York market shows extremes of 6.06 cents in the season of 1898-9 and 12.67 cents in 1903-4, with average of 9.3 cents. The period of twelve years ending 1902 was one of low prices, with average of but 7.86 cents. Average of five years since 1902 is eleven cents. On greater crops the price has advanced, evidencing a growing demand and an assured trade that must bring much in the line of prosperity.

All this is interesting and instructive, but as considered above it refers more to the long than to the immediate future. From the standpoint of the next year we may rest well satisfied with the

figures estimated for 1908. Due consideration must be given to the facts that odious comparisons should not be made with abnormal years; that "good crops" do not necessarily mean bumper crops, and that prices received for exportable surplus is an important factor.

There are many other fundamentals which affect a comprehensive view of existent conditions and the probable future. Most of them have been discussed from time to time in these advices. Crops are paramount at the moment as an influence on our immediate prosperity and are therefore given first place.

The important question of money comes next, so far as speculative movements are concerned, and we have the best of reasons for believing that money will be plentiful for a long time to come. There is such a consensus of opinion on the part of well-posted men that this position may be confidently assumed.

With our crop and business prospects as they are; with prima facie evidence of improvement in railroad earnings; with good reasons for expecting normal rehabilitation in all lines of business, and last, but not least, with money obtainable at a rate far below the income yield of many sound securities, we may feel that a comprehensive advance in prices is warranted before there is any material recession.

The General Situation.

The general situation is very satisfactory, not only in what is openly apparent in the way of improvement, but in indications not generally regarded by ordinary observers. The betterment is quite comprehensive. In the steel and iron trade furnaces are resuming business and the increasing employment of laborers is an evidence of growing business. The estimate departments are crowded with business; a very good sign of future activity. Bond houses state that very few gilt-edge issues are on the market and that secondary issues which have been dormant for two or three years are beginning to find a market. Foreign investment demand is good in this quarter. Railroad gross earnings show a great improvement so far in September, the decrease as compared with last year being 10.42% for the first week of September, according to the Wall Street Journal. This compares with 16.30% decrease for the fourth week of August, and 13.57% for the entire month of August. Money is still plentiful, and the strength of foreign exchange does not appear to disturb anyone. This flurry in exchange is attributed by bankers with whom I have conversed to a remarkable scarcity of cotton bills, which they anticipate will soon appear in large volume.

The general situation shows steady and healthful improvement.

The Technical Situation.

In the last few days there has been decided improvement in the technical situation. As was suggested some days ago, the number of weakly margined accounts was much greater than was generally believed, but close observers did not find it difficult to detect this weakness. Many of these accounts have been sold

either voluntarily or on stop orders, and a very considerable addition has been made to the short interest.

While I would not designate the technical situation as very strong, it is much improved.

Crop Conditions.

Some of the habitual crop-killers have given vent to pessimistic utterances during the past week, but our crops as a whole may be considered in the harvesting period, and estimates of the experts on corn are so uniform as to give a finality to probable production. We may safely call 1908 a "good crop year."

Conclusion.

As stated in the daily letter of September 18, I feel warranted in modifying my recent views in favor of renewed operations on the long side. I make no pretense at guessing changes of a point or two and will not be surprised if there is some further temporary weakness here and there. However, it is dangerous to try to catch the ultimate point, and it is now probably better, in view of the extent of reaction and the improvement in the technique to make reasonable purchases, prepared of course to average and exercise a little patience if necessary. With fundamentals as they are, and practical certainty of continued cheap money, the buyer need have no fear as to the final result, even if manipulation or tail-end liquidation should cause some further weakness.

September 26, 1908.

It is invariably the case that when a reversal of moderate proportions occurs in the stock market the enthusiasts who buy at the eleventh hour and who care nothng about basic conditions so long as everything is going their way, begin to scratch their heads and examine fundamentals. It goes without saying that such examinations are, like their operations, also of an eleventh-hour character and that the thing which should have been done first is done last. No speculator who understands his business ever enters the market without knowledge of his foundations. There is a class which refutes the importance of such knowledge and attributes everything to manipulation, etc., but this class always loses money in the long run. Security prices are made by conditions and nothing else, and the only royal road to success in the game is to examine carefully every factor which can affect prices. Speculation is not gambling, it is a science.

These statements are not made in ill-natured criticism of those who adhere to the mistaken idea that the market is a machine, but in the hope that some readers may be influenced to abandon their fallacies and get on the right track. Personally, I was so pig-headed that it took me ten years to absorb the truth.

In the last weekly letter attention was called to our agricultural

resources. This should be supplemented by a further examination of our general productive power.

In the May, 1908, edition of the American Review of Reviews, there appeared an article from the pen of Mr. Richard H. Edmonds, editor of the Manufacturers' Record, entitled "A National Inventory."

I have always appreciated Mr. Edmonds' ability to think and his accuracy in the presentation of facts. If I am not mistaken, he was one of the first to begin writing of the increasing gold supply, and his own contributions on the subject, together with those of Mr. Byron W. Holt, have given to students the clearest and simplest exposition of this most important factor.

Through the courtesy of the editor of the American Review of Reviews I reproduce salient portions of Mr. Edmonds' article. This will give us at once a comprehensive grasp of the potential power of the United States.

Introducing the question, Mr. Edmonds says:

"Let us, as a people, take an account of stock. Have we reached the zenith of our material greatness? Have we built enough railroads, and only need, as some have thought, to round out and perfect our present system? Have we used up our best resources in creating our present development, or have we only done a little pioneering work? Have we really seriously begun the development of our country? Is not all the work so far done merely the clearing of the land, the pulling up of the stumps, the digging of the ground and the laying of a foundation for our business structure? Have we not simply been the students in some great institution learning how to do things, and getting acquainted with our country and its resources? Or, changing the form of expression, is it not true that until now we have been day laborers, and apprentices, and mechanics only, but that, having passed this stage, we have advanced until we are ready to take charge of the shop and really do business? It behooves us, therefore, to study our tools, to see wherein the shop is deficient and wherein it is well equipped. Then we must know about our raw materials and the facilities of the shop to meet the world's competition. Let us look first over the old patterns and see what the shop has done in comparison with what other shops have produced."

Mr. Edmonds then produces the following table, which is in itself a liberal education on the subject:

	World.	United States.	Per cent. U. S.
Area in square miles.....	50,656,000	3,026,000	5.9
Population	1,650,000,000	86,000,000	5.2
Corn, bushels	3,285,000,000	2,592,320,000	78.8
Wheat, bushels	3,062,000,000	634,087,000	20.7
Tobacco, pounds	2,210,000,000	698,000,000	31.1
Cotton, bales	18,578,000	13,346,000	71.3
Pig iron, tons	61,000,000	25,780,000	42.2

Petroleum, barrels	260,000,000	162,600,000	62.5
Copper, pounds	1,597,000,000	918,000,000	57.5
Gold, value	$404,000,000	$89,620,000	22.1
Silver, value	$106,835,000	$37,914,000	35.5
Sulphur, tons	832,644	298,859	35.8
Coal, tons	1,220,000,000	445,000,000	37.3
Phosphate rock, tons	3,632,000	1,978,000	54.4
Cotton spindles	122,880,000	26,000,000	21
Railroad mileage	570,000	225,000	39.5

Commenting on these figures, Mr. Edmonds says in part:

"In round figures we have 3,000,000 square miles out of the total 50,000,000 square miles of the world's area. We have a population of 86,000,000, or a fraction over 5 per cent. of the world's. With an area of 5.9 per cent. of the world's, and a population of 5.2 per cent., we are raising annually 43 per cent. of the world's total production of wheat, corn and oats. Of corn alone—one of the most important cereals known to mankind—we are producing 78.8 per cent.; of tobacco we are raising 31.1 per cent., and of cotton 71.3 per cent. Thus, in agriculture—the starting point of material progress, since man must first be fed and clothed—is found an illustration of our position.

"This agricultural supremacy is fully matched in minerals and manufactures. Taking the most recent available figures, which include a few estimates for 1907, and the striking comparison is produced that we made last year over 42 pei cent. of the world's iron production, or 25,780,000 tons out of a total of 61,000,000 tons. We mined 445,000,000 tons of coal out of a total of 1,220,000,000 tons, or 37.3 per cent. of the industrial energy stored in coal, the motive power of material progress. Of petroleum, which lights so large a portion of the earth, illuminating the adobe house in the wilds of the mountain regions of Mexico, the home of the dweller in the Andes, the hut of the mountaineer in the distant regions of the Himalayas, and likewise furnishes what is regarded as the best of lights in the dwellings of wealth and even of royalty, we produced last year 162,600,000 barrels, or 62.5 per cent. of the world's total of 260,000,000 barrels.

"The development of electricity—the marvel of these latter ages—is dependent upon copper for transmission. Without its electric power, the electric car line and electric light would be almost impossible. In copper, as in petroleum, the United States holds a dominating position. It produced 57.5 per cent. of the world's output, or 918,000,000 pounds, out of a total of 1,597,000,000."

Touching on the probable continuance of production, the writer says:

"We are steadily gaining in our proportion of the world's productive interests, as illustrated in the fact that at the beginning of this century we were producing 34 per cent. of the world's iron,

as against 42.2 per cent. now; 42.9 per cent. of petroleum, as against 62.5 per cent. at present; 55.5 per cent. of the world's copper, as compared with 57.5 per cent. to-day; 31.9 per cent. of the world's coal, as against 37.3 per cent.; and while we are now producing 35.8 per cent. of the sulphur, our total output seven years ago was less than one-half of 1 per cent. of the world's output. These figures indicate something of what we have done. They give us an insight into the character and extent of the product of this, the world's busiest workshop. They furnish an unanswerable refutation of many of the arguments of the last few years against our business methods and against the solidity of our material progress. With 5 per cent. of the world's population, we have for some years been steadily gaining on the world in agriculture, in railroads and in manufacture."

In regard to metals and coal Mr. Edmonds speaks as follows: "The position of the United States in comparison, not with Europe only, but with all the world, stands out so pre-eminently strong as to guarantee to this country an overmastering domination of metallurgical interests."

And in regard to cotton:

"Secondly only in the value of annual product is the cotton manufacturing of the world. No other industry except iron and steel exceeds in value the annual output of cotton goods. Though Europe has 86,000,000 spindles in its cotton mills, which with cognate interests represent an investment of $1,500,000,000 or more, its leading cotton-consuming countries do not raise a pound of cotton. For three-quarters of a century its governments have sought to develop cotton-growing in other lands in order to lessen their dependence upon our Southern States. Their work has been in vain. Stronger to-day than ever before is our monopoly of the world's cotton trade. Every year adds to the influence and power of the South's position in this industry. We are raising an average of about 12,000,000 to 12,500,000 bales a year. This could be doubled by better cultivation and the better selection of seed without the necessity of adding a new acre to the land under cultivation. Whenever it may be needed, however, the number of cultivated acres can easily be doubled. If the world should eventually need, as probably it will, 40,000,000 or 50,000,000 bales, this section will find a way to supply it."

Referring to our geographical advantages:

"As our natural resources give us unequalled advantages, so our geographical location gives us a strategic position to command the world's trade. Midway between Europe, the Old World's center of civilization and activity, and the Orient, the coming center of world activity, stretching from ocean to ocean, the United States holds a unique position in the world's geography. This land of ours is Nature's storehouse of wealth. Here is a region unmatched on earth—a country so fertile of soil, so burdened with coal and iron and copper and other minerals, that we do not have

to concern ourselves for generations to come about their exhaustion. Consider the whole earth; study the geographical locations of all lands, their resources in climate, in soil, in minerals, in population, and the things which make for the highest development of mankind. The more you study, the more you comprehend the foundation of all human advancement, mental and ethical, the more you will be dazed at the vastness of our opportunities."

It has been necessary to omit many important portions of this most interesting disquisition. I have only taken that which appeals to me as most forcibly related to the future of our American securities.

As the matter discussed above has high educational value, I have prepared the accompanying chart which presents the tabulation in a convenient form.*

Can any man, no matter how pessimistic by nature, scrutinize this exhibit and question the long future of the United States? Our recent panic was a spasm, brought about by inflation, intemperance, extravagance and, to some extent, by our miserable rigid currency system and political demagogy. But the foundation is sound and the investor or speculator who looks primarily at what is most vital need not be perturbed. We get sick now and then, but we have a mighty fine physique.

In referring to the necessity of looking first to broad fundamentals it is not meant to say that no attention need be paid to minor factors. On the contrary, eternal vigilance is the price of safety. Conditions may change or improvement in the general situation may be over-discounted in stock prices. The technical situation is also important, as most of the intermediate swings are due to the shifting from strength to weakness or vice versa in the technique. It was the broad long-distance view which led to the belief that 1908 would be a bull year. It was the weakening of the technical situation which warned us to stand aside on September 2, and it was the subsequent strengthening of the technical situation which induced a resumption of bullish operations early this week. We may study to advantage both actual values and the machinery of the market, but of the two, knowledge of values, both present and prospective, is the more important.

The General Situation.

The general situation continues to evidence improvement. In the steel and iron trade our exports have again reached normal proportions. The U. S. Steel Corporation will book over 600,000 tons of new steel business in September. This is in excess of the tonnage produced, so temporarily, at least, orders are running ahead of production. In copper (the Metal) exchange quotations of 13c. for electrolytic appear to be misleading, as the large selling agencies are not offering under 13¾. In the general dry-goods and shoe business marked improvement is shown.

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* This chart appears on page 18 of the Book of Charts issued in connection with this volume.

My private advices, culled from a large and diversified correspondence, are even more cheering than the newspaper comments.

Consider the general situation and prospects entirely satisfactory.

The Technical Situation.

The technical situation is strong. The weak features noted in former advices have been eliminated. There was, three weeks ago, a considerable long account of a very poor character. The slump in prices cleaned out this element and also encouraged the formation of a short interest.

The technical situation is now healthy and stronger than for some time.

Conclusion.

Do not change my recently expressed views. Purchases are recommended on all little reactions. In the high-priced rails, Union Pacific shows the best accumulations. In the low-priced rails, Erie, Colorado & Southern, Chicago & Alton and Rock Island preferred look most attractive. In the industrials, American Locomotive, Anaconda, Amalgamated and American Car and Foundry are very cheap.

October 3, 1908.

During most of the week the market has vacillated in a narrow range. Dullness was particularly noticeable on declines, which is generally considered a good sign as it means that the drives of the professional bear element do not dislodge securities, and, in the last analysis, that securities are in strong hands and not for sale at this level of prices.

For several months I have favored the purchase of the high-priced dividend-paying shares. More recently advice has been given to buy the low-priced stocks. My reason for the original recommendation was that we were emerging from a period of depression and it has always been found that when capital has been frightened by such spasms it first seeks the best securities, gradually recovering confidence and taking heart as the atmosphere clears. Also it is to the advantage of the manipulative class to select for their operations such stocks as are in the public eye. When large profits have accrued it is deemed expedient to accept them and swing into other shares.

This does not necessarily mean that the stocks first advanced will suffer a material decline, but rather that a dead level or a narrow range may be expected. Even in the low-priced shares this halting occurs. For example, Erie common was recently advanced from 20 to 30, a rise of 33⅓ per cent. For some days it has hung around the figure last named while others of its class have received attention.

The probability as to what stocks may be expected to move

next in this process of rotation cannot be gauged by merely consulting the percentage of advance. Activity must be considered and most of all is a painstaking scrutiny of comparative statistics and prospects. We may be sure that the bright minds of Wall Street will select first the stock which possesses the greatest intrinsic merit and promise. Erie was recommended in August because of the high maintenance shown in their June report. It was found that maintenance consumed 48% of the operating income for that month and 35% for the whole year. The extra percentage made up two-thirds of Erie's loss in net for the entire year and would have more than paid the $5,000,000 in notes due in April. At present the showing of Colorado and Southern is excellent and, while the stock may not immediately respond, it bids fair to be a favorite before long.

One thing which operates in the public mind against purchases of low-priced stocks is the lack of income return. Also most speculators have a tendency to revert to past records. "This security has reached the highest point in its history" or "It is as high as it went last year." It requires but a little reflection to see the fallacy of this method of defining mechanical limits. The question is not at all as to how low or how high the stock has been in the past, but of its present value and future prospects. It is not so very long ago that Union Pacific sold below $10 a share, but when the stock had recovered to, say, 30, there is no reason to believe that the public attitude was not the same as to-day; 30 was a dizzy height and 40 was a joke. But what became of the bears at 30 and 40? And this does not apply specifically to Union Pacific, but to practically every high-priced security on the list.

The extent of advance from low prices which may have been established without reason or warrant is also frequently given more consideration than is deserved. I remember that in 1904 few brokers or advisers had the temerity to advise purchases of U. S. Steel stocks. After Steel preferred had advanced from 49 to around 65 it was found that practically every brokerage house in the city had a surplus of short commitments in the stock on its books. The mistaken operators who persisted in a bearish attitude toward Steel preferred at 65 or at 75 simply figured that it had "gone up enough," without consulting the present or, what is more important, the potential value of the security. If you can satisfy yourself that a certain stock selling at 50 is worth 100 or is going to be worth 100, you need not be concerned about the fact that it has never sold above 50. To 100 it will go, if your deductions are correct, no matter how many records are smashed on the way up. Statistics have their uses, but they are so generally abused that I sometimes think we would all be better off if figures could be erased from both our records and our memo-

ries, so we would be compelled to look at what a thing was worth before we bought it.

There is still another mental but closely related phase which militates against prices at present. We are making too many odious comparisons. The reports which are now forthcoming are not only records of what is past, but records of a panic year compared with a banner year. We find the margin of safety much reduced in many stocks by comparison with this factor a year ago. If in 1907 we had observed that the margin of safety in a certain preference was 20% we might have been alarmed because of fears that this margin would be totally eliminated. We were on the back track. But to-day we may confidently buy that same security with its margin of safety reduced to 10% because we are facing a constructive future in which there is little danger of a further reduction of this margin and every reason to anticipate improvement.

Union Pacific, Atchison and a host of other securities passed through their baptism of fire a few years ago. When the recuperative power of the country and the natural accretion of values began to overcome the errors, accidents or manipulation which caused the downcome, there were not wanting cynical people who looked upon the rising prices as abnormal. The late Mr. Weirshoeffer called Atchison "a streak of rust across a desert" and sold it short. The price at the time was about $8.

All of which is intended to lead up to the opinion that many of the low-priced issues of to-day may, and probably will, be the features of the future. In years to come such stocks as Pennsylvania will disappear into tin boxes as Lackawanna did and some security which is kicking about the street now will be whooping things up and entertaining the chair-warmers in brokerage offices with moving pictures on the blackboard. It needs only confidence in our resources and in the integrity of purpose and ability of our financiers or, lacking the last-named factor, confidence in the ability of our legislators to insist upon correct methods, to see that the Erie or the Alton of to-day will become the Union Pacific or the Reading of to-morrow.

The General Situation.

While there is some evidence of a halting tendency in general business, as reflected by bank clearings and other barometers, the quiescence is bound to be of a temporary character. A good many timid people are inclined to hold up orders until after the election, but these delayed purchases will simply accumulate for a few weeks. The orders will come regardless of who goes to the White House.

The bulletin on internal commerce issued by the govern-

ment October 2 is a cheering document. The introductory paragraph is as follows:

> "The movements of internal commerce for the month of August, as reported to the Bureau of Statistics of the Department of Commerce and Labor, show, generally, marked improvements over the preceding months of the year. There is a considerably heavier live-stock movement reported for the month when compared with preceding months, and the season figures of eight months show slight increases over the corresponding period for the preceding year. A marked improvement is shown in the freight-car situation, practically all the associations showing increased traffic for August over any of the preceding months of the current year. Grain also shows heavier movements when compared with last month, and coal and lumber continue to indicate the improved condition over the earlier months of the year, though the figures are still below the records made in the volume of business for 1907."

In regard to the situation as reflected by car service, the bulletin says:

> "Reports of 35 car-service associations and demurrage bureaus, covering practically the entire territory of the United States, show marked improvements in the condition of the country. The reports of all these associations, with the exception of three or four, show increases in the number of idle cars handled for August over the preceding month. The aggregate number for the 35 associations. 2,441,720 cars, is, however below the 2,998,237 cars reported for August, 1907.
>
> "The American Railway Association reports denote a marked improvement in the car-service situation, the surplus cars having been reduced to 173,587. The last fortnightly report shows a further decrease of 49,045 cars."

Railroad earnings reports are still showing losses in gross as compared with 1907, but in most cases net returns are improving. Attention was directed some time ago to the fact that the many economies effected during the recent depression would greatly help the net earnings later on. This is already becoming evident. The destructionists who find evil in any phase of the situation have recently stated that these economies were effected at the expense of maintenance. In reply to this I cannot do better than quote from a letter recently received from a gentleman who is in a position to know how such economies have been effected and for whose broad judgment I entertain the highest regard. He says in part:

> "The people that predicted last spring that there would be no material improvement in traffic on the Eastern trunk lines until after election still hold to that view, and in so far as their lines are concerned they have proved correct.

They are now preparing for a change and have ordered all 'shop cars' that were stored along the line into the shop for repairs and preparatory for service.

"The economies they have inaugurated are almost incredible. On one main division, with almost the same train mileage, they reduced their coal bill last month $45,000. Part of this was due to previous guessing as to weight and the other to actual saving in coal consumption. In another department I learned that over $30,000 expended in rubber bands had been almost eliminated by substituting string. I could cite many more details, but these will show 'the way the wind is blowing.' The new records will form a basis for future comparisons and while it is not reasonable to expect a retention of all this saving it is fair to presume that it all will not be overlooked. Has the panic been a blessing in disguise?"

I consider future business prospects most promising.

The Technical Situation.

The technical situation appears to be stronger than for some time. As stated in the first paragraph of this letter, the bear raids do not dislodge stocks and as the public operators are in a waiting attitude there is no extended weak interest of this character. There was considerable short-margined public participation a few weeks ago, but it was largely eliminated by the recent reaction. On the other hand, the weaker professional bear element is over-extended and stubborn.

Consider the technical situation strong.

Conclusion.

While the market may remain in a trading area for a short time, it is not safe to wait too long or feel too certain that prices will be made more attractive. With securities in strong hands and the holders unwilling to sell at this level any decline in prices will be artificial and the ensuing advance more pronounced. There is, of course, always the possibility of a downward fluctuation, but under present conditions such a movement need cause no concern to the holder of good stocks and should be looked upon as an opportunity to average or increase commitments.

Continue to recommend purchases of good stocks on every little decline.

According to custom, a chart showing daily average stock market movements for 23 Active Rails, 18 Active Industrials and the combined average of the 41 stocks, for the previous month, is presented below:*

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* This chart appears on page 9 of the Book of Charts issued in connection with this volume.

October 10, 1908.

Late in August it was suggested in these advices that it would probably be better to change from the market leaders which had shown a great advance to the more dormant low-priced shares. It appears that some readers feel that they have sacrificed opportunities by following this process of rotation. Without intending the matter in a spirit of controversy, it is interesting to note just what has happened in the two groups mentioned. Taking the so-called leaders in the high-priced rails and comparing their movements since Sept. 1 with the low-priced rails recently recommended, we get the following results:

High-Priced Rails.

Stock.	Price Sept. 1.	Price Oct. 9.	Per cent. Advance.	Per cent. Decline.
Union Pacific	163½	162⅛	..	0.8
Southern Pacific	106⅞	102½	..	4
Northern Pacific	143¾	139¼	..	3
Great Northern	138	131⅞	..	4
St. Paul	144½	134⅜	..	7

Low-Priced Rails.

Stock.	Price Sept. 1.	Price Oct. 9.	Per cent. Advance.	Per cent. Decline.
Erie	24⅞	31½	27	..
Colorado Southern	35¾	40⅜	13	..
Chesapeake & Ohio	42¾	40¾	..	5
Chicago & Alton	24⅝	35½	44	..
Rock Island preferred	34⅛	47⅞	30	..

The comparative movements of the two groups is shown in a simple manner in the following charts:*

The only fair way to examine movements of this kind is on the basis of percentages rather than points. Some operators contend that they put as much margin on a low-priced stock as on one of the dividend payers, and that this being the case, points and not percentages must be considered. It must be admitted, however, that an advance of one point in a stock selling at 10 is the exact equivalent of an advance of ten points in a stock selling at 100. In both cases the value of the securities has been enhanced 10%. There is no good reason why two hundred shares of a stock selling at 50 should not be purchased with the same capital as would be employed as margin on 100 shares of a stock selling at par. The percentage of margin would be the same in both instances.

It is quite natural for the speculator to look with some dissatisfaction on a rapid advance of 15 points in a stock like Union Pacific in which he is not interested marketwise, particularly

* These charts appear on pages 34 and 35 of the Book of Charts issued in connection with this volume.

when his own holdings move slowly, but no one can glance at the chart and tabulation offered above without recognizing the very great advantage which has accrued to the purchaser of the low-priced issues during the last six weeks.

And there is another point, the element of danger. Assuming a purchase of Union Pacific on Sept. 1, the buyer would have been called upon to face a paper loss of over ten points before he reaped a profit. The purchaser of Erie, on the other hand, would not have suffered a loss of two points at any time, and this applies in a close measure to all the other stocks mentioned.

The principal topic in the street this week has been the Balkan situation. The probable effects of an outbreak in the Near East have already been discussed, but it may not be amiss to repeat the opinion briefly.

Granting for the sake of argument that war breaks out, it is my opinion that the contest would be a bull factor so far as our securities are concerned. We would, of course, be called on to absorb some foreign offerings of securities, but with money very easy and promising to remain so, we need have no fear about our absorptive power. Meanwhile we will be enriched by higher prices for what we have to sell. And, it may be said, parenthetically, that in undertaking to determine how much is genuine and how much is hot air, we will find our best and safest barometer in the wheat market. This market is very sensitive to war news, and operators, both at home and abroad, exhaust every method of obtaining correct information. Whether an actual outbreak is a bull or bear factor in the stock market may be a debatable question, but it is most certainly a bull factor so far as wheat is concerned. In 1904 after the Russo-Japanese diplomatic relations were severed wheat advanced to $1.22 per bushel, and held its advance very well. In fact, that foreign war went a long way toward curtailing the panicky conditions then prevailing and brought many millions in at our back door. The similarity of conditions now and in 1904 is most marked. We were emerging from a panic; we had good crops and money was easy. The Russo-Japanese war was a bull factor and a struggle in the Near East would ultimately prove a bull factor.

Austria, Hungary, Herzegovina, Roumania, Bulgaria, Greece, Turkey and Servia make about 310,000,000 bushels of wheat annually. America, including Canada, Mexico, Argentine, Chili and Uruguay, make about 930,000,000 bushels, and the world's grand total is about 3,000,000,000 bushels. Thus about 10% of the world's wheat is made in the affected district. This may appear small, but by consulting "Tooke's History of Prices" we find that a very small decrease in the total supply of any commodity results in a radical advance in price.

As the Balkan situation is of general interest at present a map showing the states involved is enclosed with this letter.*

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* This map appears on page 45 of the Book of Charts issued in connection with this volume.

The General Situation.

The general situation continues to give evidence of steady improvement. Our crops are now about made and we may consider the outcome gratifying. In a circular issued by the Department of Commerce and Labor as of October 5 the following statement is interesting:

> "Marked evidences of activity in the great manufacturing industries of the country are found in the latest reports of imports of manufacturers' materials as reported by collectors of customs to the Bureau of Statistics, Department of Commerce and Labor. The quantities in August, 1908, of the principal articles imported for manufacturing are, in most cases, larger than in August, 1907, a date at which the manufacturing interests of the country were making their highest record of activity. Raw wool, raw silk, crude india rubber, hides and skins, fibers, lumber, tobacco, tin and cotton are the principal articles imported for manufacturing purposes. These nine articles form more than three-fourths the value of the total imports of materials, crude, or partly manufactured, for use in manufacturing, and, in most cases, as above indicated, the quantity of these articles imported in August, 1908, is greater than in August, 1907."

It is also pointed out that while these imports of manufacturers' materials are imported at a lower cost than last year our natural export products show in many cases an advance in price over the corresponding month of last year.

Bank clearings are showing very favorably now, and this may be considered prima facie evidence that general business is not so stagnant as many suppose it to be.

Commissioner Lane, in his report on car shortage, predicts a car famine before long. He says in part:

> "The fact that total box-car surplus has practically disappeared in New England, slight shortages even having developed on some roads in that region; that in the Northwest the movement of grain has drawn into service practically all grain box-cars available in that territory; that the coal-car situation in the Northwest shows, few roads reporting an actual surplus and a number arranging to secure cars from eastern and southern lines makes the question of car supply and car distribution of great importance to those who will be called upon by shippers for relief in case a widespread shortage should be coincident with the return of business prosperity as seems highly probable."

The country's iron production for September was the largest since the first of the year, and everything points to improvements in the steel and iron business.

The predictions of great improvement in the showings of railroads recently offered are now being verified in a decided manner,

some roads actually showing gains in gross as well as net, as compared with last year.

Consider the general situation very promising.

The Technical Situation.

The technical situation is further improved by the selling attributed to the war scare. It is certain that much of this selling comes from the bear element both at home and abroad. The weaker bulls have been pretty well eliminated and when shorts attempt to get stocks back they will probably have the same experience as in all the recent drives, *i. e.*, a swift uprush of prices. The buying of good stocks on these declines is of excellent character, but no disposition is shown to check the course of fluctuations. The buying is much better in the low-priced shares than in the former market leaders.

Conclusion.

While the actual liquidation growing out of war scares may result in some further heaviness in the high-priced rails, it is quite certain that the buying on these declines is better than the selling. Feverish movements in both directions may be looked for, but there will be more of manipulation than liquidation in the sharp declines. The best and safest thing to do now is to adhere to the method recommended for some weeks and buy the low-priced stocks on all reactions. This group will, of course, sympathize somewhat with the movements of the high-priced stocks. Colorado Southern, Rock Island issues, Erie, Chesapeake and Ohio, Chicago and Alton, and American Locomotive appear to be in a particularly strong position in the low-priced group and should be picked up at this level and averaged confidently on possible further declines.

October 17, 1908.

It is interesting to note the movements of stocks in the periods preceding and following the Presidential elections of past years. Accordingly I have prepared a series of charts covering the elections since 1872, and a memorandum of factors, aside from politics, which influenced prices. The charts appear on the accompanying supplement.*

One of the most interesting points developed is that in seven cases out of the nine examined, the man who sold stocks on November 4 could have recovered them at lower prices later on.

The perpendicular lines in the charts show the average

* These charts appear on page 52 of the Book of Charts issued in connection with this volume.

high and low prices of five important railroad stocks, on each day, for two weeks before and two weeks after each Presidential election, since 1872, inclusive.

Election days (in which there were no markets) in each case are represented by a dotted line.

The stocks selected are:

1872 to 1884, inclusive: Illinois Central, New York Central, Lake Shore, St. Paul and Union Pacific.

1888 to 1904: Atchison, St. Paul, Louisville & Nashville, New York Central and Union Pacific.

1872.

General Grant re-elected in November.

A rather quiet year in the stock market, most of the time, with the broad general trend downward, owing to overbuilding of railroads, excessive issues of securities and high interest rates. The country was on the verge of the panic of 1873.

There were moderate swings in prices, back and forth, during the year, stocks being kept strong in order to permit the marketing of securities. The crops were large. Business was good.

Maintenance of the protective tariff was dependent on Grant's election, but there was no acute contest over the subject. Congress had already begun to lower the war tariff; and early in 1872, hundreds of articles had been placed on the free list, retaining the protective principle in a general way, as to the rest of the list.

The election did not materially affect stocks. There was a rise from October until a few days before election. A little profit-taking then caused a slight decline, and on November 11, the great fire in Boston caused a sharp break. Stocks rallied into December, and that was the last of the bull market.

1876.

Hayes elected in November.

This was a bad year in the stock market. All the financial fundamentals were bearish. Railroad rate wars, reductions of dividends, railroad foreclosures and receiverships, small crops, poor business, heavy gold exports and money stringency in the fall came along, one after the other. The trend was down, and stocks fell steadily and heavily, from January until September. They then rallied a little and swung within a 10-point range until January, after which came the panic of 1877.

Hayes's election ensured stability of the protective tariff and steady progress toward resumption of specie payments, in 1879, to which the Republican party was committed. But Governor Tilden immediately challenged the validity of Hayes's election, and some extremists threatened civil war. Stocks fell in consequence.

1880.

Garfield elected in November.

The influences of this prosperous year were bullish, with a few exceptions. Reading was in trouble and the receivership in May caused a smash. After that, the trend was upward in the stock market for more than a year.

Specie payments had been successfully resumed. Crops were immense. Railroad earnings broke all records. Huge gold imports, a boom in business, railroad consolidations and great stock dividends all helped lift the price of stocks. Money was dear, however, owing to the activity of business and speculation, and this caused a break in December.

Some doubt was felt of Garfield's election in September, but the October elections ended all hesitation, and the rise was resumed with energy. There was profit-taking for a few days after election, but after that stocks went to the highest point of the year in December, and on up into 1881.

Cleveland elected in November.

1884.

A bad year in serious respects. The Grant & Ward panic in May caused a smash in the stock market, running on until June 27. The railroads were cutting rates right and left. Gold was being exported, following a long period of steady imports.

An unfavorable influence was the revised tariff of March 3, 1883. There had been a popular outcry for tariff revision, and a Republican Congress, with many misgivings, gave the country what it asked for. The iron and textile trades were badly deranged in consequence, and general business was bad.

Good crops and a plethora of money were overbalanced by the evils referred to.

In June traders bought stocks for a rise, and there was a violent advance into the early fall. But the public held aloof, and the pools sold out, in disgust, in September. Moderate rallies only took place after that, and Cleveland's election caused apprehension as to the tariff and there was a strong decline into December.

1888.

Harrison elected in November.

A year of abundant money, gold imports, great crops, and excellent business. But railroad building had been carried on extensively, traffic had not yet come up to paying proportions for all, and railroad managers went to war with each other and cut rates incessantly to get business, impairing the value of their stocks. The bull market was held back by this. After September 13, when St. Paul passed its dividend, there was a sharp break in stocks, and Atchison's reduction in October and various defaults in interest added to the trouble.

Harrison's election ensured a continuance of the protective tariff at any rate, and caused a moderate rise in stocks, but there was too much silver legislation; and the other evil influences, above referred to, led to a heavy decline in December, ended only by J. P. Morgan's labors to bring about the famous "gentlemen's agreement."

1892.

Cleveland re-elected in November, distinctly as the result of two causes, one the bitter factional fights in the Republican party, the other a private promise to secure repeal of the silver-purchasing act.

The broad trend of stocks was downward the whole year, and the market was hastening toward the panic of 1893.

There was more harmony among the railroads and earnings were the largest on record. Business had been good, fostered by the McKinley tariff law of 1890. But there was a partial crop failure, Northern Pacific passed its dividend, several railroads were thrown into receiverships. Money stringency in the fall and gold exports discouraged traders, and Cleveland's re-election ensured an attack, sooner or later, on the McKinley tariff law.

After election the trend of stocks was downward, varied with a moderate January rally next year.

1896.

McKinley elected in November.

Panic year, followed the dull times, caused, in part, by the Wilson Tariff bill of August, 1894. Money was high after July and almost impossible to borrow, and gold was exported on a large scale. Corn and cotton were large crops, but the other harvests were small. Railroad earnings were moderate.

In July occurred the famous "Bryan scare" in politics, and stocks went down heavily into August, when they touched bottom, almost on a level with 1877, and have never been back there since.

As the Bryan scare passed off, the market started up and was on the up-grade at election time. It jumped the day after election, and, after the usual profit-taking, went on upward for years.

1900.

McKinley re-elected in November.

The stock market had halted for a year or so, swinging back and forth within a moderate range. Money was plenty. Interest rates were low. Railroads broke all records as to earnings. Most of the crops were large, although wheat and barley were small. Business was in splendid shape, promoted by the Dingley tariff, passed in 1897.

As McKinley's election was seen to be practically certain, the market started upward, went on higher after election, and developed into the greatest bull market ever seen in this country.

1904.

Roosevelt elected in November.

The country was recovering from the panic of 1903, caused by the financial excesses and over-issue of securities during several years of great prosperity.

The market was already on the up-grade at election time, and it swung on upward swiftly thereafter.

Money was abundant and cheap. Gold was imported. The crops were huge, and the railroads doing well. The bulls had everything their own way after the Northern Securities decision in the spring. Highest prices of the year were made in December.

The General Situation.

In reply to a number of inquiries addressed to bankers by the New York Journal of Commerce it appears that business conditions are very satisfactory. In the West particularly there is confidence and optimism. One prominent Iowa banker states that, as a class, the farmers are out of debt and have money in the bank. General trade conditions and collections are reported excellent in all Western States.

From mercantile and manufacturing districts reports are not so good, but show evidences of steady improvement and confidence in the future.

The steel and iron business remains backward so far as new orders are concerned, but it is probable that this will be rectified a few weeks later. The report of the United States Steel Corporation for the quarter ending September 30 will probably show earnings of about $25,000,000, an increase of $5,000,000 over the quarter ended June 30. A hint comes from good quarters that some very optimistic remarks will appear in the text of the report.

Reports as to copper are cheerful. Producers are holding together more decidedly than at any time for a year, and there is no price-cutting. Quotations on Lake Copper have appeared at 13¾, but all the important producers are holding firmly at 14.

As an evidence of the increasing consumption of copper it may be pointed out that the annual report of the Western Union Telegraph Co. as of October 14, shows that in construction of new lines there was an increase in copper wires of 66,351 miles and a decrease in iron wires of 28,120 miles. I am informed that there are 210 pounds of copper in a mile of standard-size wire, which means a total of 13,933,710 pounds of copper used by a single telegraph company whose field is limited largely to the United States.

The bond market, usually a good barometer of general conditions, reflects continued improvement, and bank clearings are satisfactory.

The crop killers have gone to work early on winter wheat, claims are made that dry weather is working injury in the winter wheat belt. In this regard crop expert Oscar K. Lyle, who was of great assistance to me in forming correct opinions as to the outcome of our 1908 cereal crop, says:

> "The dry weather in the winter wheat belt makes it interesting to look backward for a similar season. In 1904 the fall was very dry and officially it was said 'dry weather over portion of the belt prevented seeding and germination in October, and the seeding was nearly finished at the close of the month.' November was very mild and exceptionally dry. Absence of rain was so marked as to prove injurious to fall-sown grain and to hinder plowing. Winter wheat was unfavorably affected by drought over the greater portion of the belt, conditions being least favorable in the Ohio Valley, Central Mississippi Valley and Lower Missouri Valley. The official condition was given as of December 1, 1904, at 82.9 per cent., the lowest on record. I was West at the time, and between December 1 and the 10th there was a good rain, followed by warm weather and the wheat grew wondrously. So much so, the official condition in the following April was 91.6 per cent.—and about the only instance of a gain from December to April on record. Excepting this one season, with the gain of 8.7 points from December to April, the average loss has been 7.6 points from December to April. The crop of winter wheat following these conditions was 428,463,000 bushels, from an acreage of 29,864,000 acres, or the equivalent of 14.3 bushels per acre. Conditions are not worse now. What has been may be."

However, it is too early to talk crops. When the proper time comes I will put my expert on the ground, as usual, and we will have little trouble arriving at the truth.

Consider the general situation very satisfactory.

The Technical Situation.

Investigations show that the technical situation has been somewhat weakened during the last few days. Professional bears who sold on the war scare, covered commitments freely as the scare dwindled. It also transpires that there was a smaller percentage of short selling for foreign account during the Balkan agitation than had been surmised. The London fortnightly settlement showed only a small short interest. While this helps to weaken our day-to-day technical position and render the list more vulnerable to bear attacks, the fact

that we could absorb 250,000 shares of securities without disturbance speaks well for the underpinning of the market.

It may also be pointed out the low-priced stocks which have advanced recently do not have the advantage and assistance of a short interest of large proportions. The short seller concentrates his operations on high-priced shares. There are not wanting critics who claim that the advance in the low-priced shares is purely manipulative. but it may be pointed out that the advance in this group has been orderly and has covered a considerable period of time. Certain low-priced stocks were recommended in these advices in August, not because of any anticipated manipulation, but entirely because of their favorable statistical position and the good character of buying.

The technical situation at the moment is not strong, but absorptive power remains good and would check any decided decline. A decline would also in all probability cure the weakness of the situation by eliminating weak long accounts and building up the short interest.

Conclusion.

See no reason to change the views expressed in this week's daily letters; i. e., that the market is in a trading area with probably an advancing tendency for the time being. Under such circumstances it is advisable to purchase good stocks confidently on all drives, accepting profits in the event of sharp upturns. Still prefer the low-priced stocks, especially Colorado Southern, Erie, Rock Island, Chesapeake & Ohio, Chicago & Alton, Denver & Rio Grande and Southern Railway. In the dividend payers Atchison and Amalgamated look very attractive. The equipment stocks should do better before long, and my selection in this group would be American Locomotive, American Car & Foundry, Pressed Steel Car and Railway Steel Spring.

With this letter I am enclosing a printed slip and self-addressed stamped envelope for the purpose of getting a poll of subscribers as to election probabilities. Personally I will attach more credence to this straw vote than to newspaper polls, which might be colored. The letters reach business men in every portion of the United States, and exact results will be tabulated and set forth in next week's letter.

The value of this vote will consist not so much in the choice of candidates for 1908 as in party changes from previous elections. It is realized that many people will not wish to disclose their choice of candidates openly, so no signatures are required. All we want is the result.

It will be esteemed a favor if subscribers will fill out and return the form promptly.

October 24, 1908.

In conversation some weeks ago with a number of gentlemen who make a particular study of technical conditions and their temporary effect on stock prices, I offered it as my opinion that there would be a decline in stock prices after the election regardless of who the incumbent might prove to be, and that there would be no decline of importance before that time. My views as to the probable market action were pictured roughly in a diagram, and that tentative exhibit suggests that if Mr. Taft is elected we will have a sharp upturn followed by a considerable decline. This decline would, according to my analysis, be greater, either measured in points or duration of time, than if Mr. Bryan were elected.

If Mr. Bryan is elected we will witness a very sharp and decided decline, covering only a few days and followed by a considerable advance.

As all this may appear paradoxical, and as mere unsupported ideas or personal opinions are valueless, I will briefly offer my reasons for this conclusion.

There is at present, not only in the United States, but throughout the world, a great deal of what Walter Bagehot designates "stupid money." People who could not be induced to buy stocks a year ago are standing around waiting to see Mr. Taft elected before they buy. If Mr. Taft is elected this money will appear from many quarters. This action will not only give the larger and more farseeing interests an opportunity to sell stocks, but it will weaken the technical situation greatly and furthermore will practically **compel** the manipulative operators to drive out this slim-waisted element. The operations of larger interests would be greatly endangered by too much company of this character and, by the same token, it would give them an opportunity to dispose of holdings and later on replace at lower prices.

And let us also consider the fact that the speculative contingent considers Mr. Taft's election a foregone conclusion, and that, if they are right, the element of **discount** is present. If stocks have been advanced, as I have no doubt they have, on the theory of Mr. Taft's election, we cannot possibly expect the actual consummation to result in another advance of equal proportions.

If Mr. Bryan is elected we may expect a very sharp decline. By looking at the matter technically this decline will result in a drastic and sudden elimination of the weaker long interest and the certain creation of a short interest. The "stupid money" would come into the market at high prices in the event of Taft's elec-

tion and it would not come into the market at low prices with Bryan in the chair.

And, aside from this purely technical view of the situation, there is a widely promulgated basic opinion that business and orders are dormant awaiting the results of the election. To some extent this is true, but the factor is probably greatly overestimated. It is only the smaller concerns that are stultifying their business through fear of Mr. Bryan. There is nothing in the bank clearings or other barometrical figures to support the view. It is probable that a great many people who look for a tremendous increase in business in the event of Mr. Taft's election or a great stagnation after Mr. Bryan's election will be much surprised at what follows. Business will go right along, and after the sentimental effects of this election evaporate we will realize that the choice of candidates was only a minor influence as compared with other and more fundamental factors.

It will be understood that the contentions offered above are theoretical and that a change in the premises, that is to say, a sharp decline before election might modify or reverse the conclusions. So far the theory has held good. The charts cannot be taken too literally. An attempt to say just how many days or how many points would be covered in such movements would be guesswork, but, personally, I do not think an average of more than five points decline will occur in either event.

The straw vote of clients so far as tabulated is as follows:

State.	Taft.	Bryan.
Connecticut	14	1
Georgia	..	1
Illinois	21	4
Indiana	4	1
Iowa	1	..
Kansas	2	..
Kentucky	2	1
Louisiana	1	..
Maine	6	..
Maryland	7	2
Massachusetts	60	5
Michigan	11	..
Minnesota	7	..
Mississippi	1	..
Missouri	8	3
Nebraska	..	1
New Hampshire	3	..
New Jersey	23	1
New York	174	11
North Carolina	..	2
North Dakota	2	..
Ohio	34	5
Pennsylvania	57	7

Rhode Island	5	1
South Carolina	1	..
South Dakota	1	..
Tennessee	1	1
Texas	1	..
Vermont	4	1
Virginia	7	..
Washington	1	..
West Virginia	2	..
Wisconsin	5	1
Total	466	49

Out of 515 votes in 33 States Taft has 466, Bryan 49.

Of those voting as above 15 vote for Bryan who formerly voted Republican; 46 vote for Taft who formerly voted Democratic. In addition there were 5 votes for Debs, Socialist, and 1 vote for Gilhaus, Prohibitionist.

A number of clients have pointed to the fact that as my letters reach business men and investors, it is naturally the case that the poll would result abnormally in favor of Mr. Taft. This is true, but it must be admitted that men of this character have a very considerable influence. On the voting slips received there are many notations reading like this: "Ten employees in this office—nine for Taft," or "This office practically solid for Taft," etc. There are also a great many notations on the Taft votes, "Would vote for any Democrat except Bryan."

The contention that the votes of the unemployed will go to Bryan is not convincing. It is quite certain that many individual employers and corporations have stated very decidedly that if Taft is elected business will be promptly improved, and that if Bryan is elected there will be stagnation. In other words, the unemployed laborer has been given to understand that he gets a job if Mr. Taft is elected and remains idle if Mr. Bryan is elected. Without discussing the merits of this proselyting, we know that what the unemployed man will vote for above all other considerations is a job.

In the above remarks there is no intention of obtruding my personal political opinions on the readers. The matter is presented without bias and with the intention of facilitating correct deductions. In the political letters issued from this office during the campaign Mr. Bryan has been adequately represented. Honorable Robert Baker was given the first whack at it, and he is certainly in favor of Mr. Bryan.

In the event of Mr. Bryan's election it would appear that the stocks which would be most adversely affected would be the issues directly concerned in tariff revision, such as United States Steel, Republic Iron and Steel, Colorado Fuel and Iron; the sugar corporations; International Paper; National Lead and the leather and

glass companies. Copper stock would be, if anything, favorably affected by tariff revision, and Mr. Byron W. Holt estimates that railroads would benefit about 10% by reasonable revision. Of course, both parties are committed to tariff revision, but the Democrats would presumably act the more drastically.

The General Situation.

The steady improvement in general business continues. The Iron Age states in the issue of Oct. 22 that while there is hesitation in covering early requirements in the iron trade, more business has been done than was generally expected. Conditions in the coal trade are decidedly better. Copper is also showing improvement and this is reflected in prices of both the metals and the securities. I have, by the way, arranged for a special letter on copper this month, which will give us a line on that perplexing question of the relative lines between production and consumption. The Amalgamated Copper Co. is earning now, figuring cost of production at 10c., about $4.40 a share on the stock (figuring copper 13½c.), and it must be remembered that this corporation has about fifty millions of timber lands and thirty millions of coal lands, which greatly increase the book values.

Money is in plentiful supply and bids fair to remain so. This is indicated by a decline of ¼% in the six months' rate to 3½%, the same as for five months. The showing of the Bank of England is better than for many years, reserves to liabilities standing at 51.70 as against an average of 45.95 for the corresponding weeks of the past seven years.

All commercial lines reflect steady improvement and the general situation may be considered quite satisfactory.

The Technical Situation.

The short interest has grown somewhat in the last few days, and the technical situation, while not unusually strong, is in a normal condition. Larger holders show no inclination to dispose of stocks as yet, and the low-priced issues are well taken on only moderate reactions. This group does not respond so quickly to sharp upward movements, as there is not much of a short interest to help them out, but, on the other hand, the stocks do not suffer much in periods of decline. In the industrial group the buying of coppers and equipment stocks is very good.

Consider the technical situation normal.

Conclusion.

Unless there is some good reason for change of opinion, I think stocks should be disposed of just before or immediately after Nov. 3. It is impossible to offer any cut and dried rule as to individual operations of this kind, but, broadly speaking, sales of stocks are warranted in case of a rapid advance next week. Such action might result in some dissatisfaction in the event of a

quick upturn following Mr. Taft's election, but, on the other hand, if Mr. Bryan happens to get in, the opportunity will be gone, and it is usually bad policy to chase the ultimate dollar. Even if there is some advance reaching to new high levels after the election, it is probable that stocks sold early in November can be recovered to advantage later in the month. In case the holder feels satisfied of Mr. Taft's election and decides to carry over he should dispose of stocks on the sharp advance which is pretty sure to follow. If he sells before November 3 and Mr. Bryan is elected he should take advantage of the following decline to replace holdings. I will try to be more specific as we go along.

October 31, 1908.

In the weekly letter of October 24 the opinion was offered that the election of Mr. Taft would be followed by only a few days of strength, then a considerable decline, and that the election of Mr. Bryan would be followed by an immediate and sharp drop and afterwards a resumption of the upward trend. The reasons for this view were given, and so far as Mr. Bryan is concerned, there is no occasion to amend the analysis, but investigations made this week lead to the belief that the expressed views as to the action of the market in the event of Mr. Taft's election may be somewhat modified.

To begin with, the deduction offered was tentatively based on a continued upward trend preceding the election. While the market at this writing is a little higher on the average, the advance has not been pronounced and the premises are therefore somewhat changed.

But there are other reasons. It is found this week that too many people are figuring the same way, and when a lot of operators get cocksure of what is to happen, the other thing usually results. This is natural, as the technical situation is reversed by one-sided participation. There is no doubt that a considerable amount of weak money will come into the market if there is a Republican victory, but if an equal number of weak holders and short sellers get on the other side, the matter would be balanced and the technical situation would not be weakened, as was suggested.

Another thing which affects the situation is that a good many people are selling now for fear of a possible Bryan victory, and this timidity has resulted in cutting down the volume of marginal commitments materially. This also strengthens the technique.

I do not change my opinion that there will be a decline some time after election even if Mr. Taft is victorious. I do think, however, that there is a strong possibility of that decline being delayed for several weeks. After the first burst of profit-taking is over, we will probably find a gradually increasing long interest. Some prospective buyers will stand around watching developments

for a few days and then come into the fold. Also the people who sold just before or just after the election will re-enter the market. This action would keep the pot boiling for some time.

It may appear from the above remarks that I vacillate in my views, but such is not the case. The opinions given were independently formed, and the changes made because the premises on which the former deductions were based have shifted somewhat, and it behooves us to shift with them.

In a letter written late in 1907 I called attention to the peculiar parallel between 1904 and 1908 and suggested that the market of 1908 would probably resemble that of 1904. This has proved correct so far. There was no "chart-playing" in this prediction. An argument founded on mechanical similarity would be worthless, but this analogy was based on the theory that like causes bring like effects. The parallel still holds good. Money and business conditions are about the same. 1908 is a Presidential year as was 1904, and the result bids fair to favor the candidate who is most in favor with business and investment interests. Following even the minor details of 1904-8, we find a most striking similitude.

For this reason it is quite interesting to note in detail what happened following the election of Roosevelt in 1904. Taking the Wall Street Journal's barometrical figures for 20 rails for October, November and December, 1904, we find that prices moved as follows:*

It will be observed that from October 1 to November 7 (the day before election) there was an advance of about 5 points in 1904. The same barometrical figures show an advance since October 1, 1908 of about 5 points. This was followed in 1904 by an advancing trend until December 5, then a sagging market for a few days, and on December 12 there was a violent decline which cancelled the entire improvement of a month in one day and left prices at the close of business December 12 2 points below the final figures of November 9 (the day after the election).

The break of December 12 was called the "Lawson Panic." In fact, Mr. Lawson had no more to do with the panic than I had. He may have recognized the vulnerability of the market from a technical standpoint and, knowing the inevitable result of a rotten technical situation, decided to take personal credit for stock-market movements, which he could neither produce nor prevent. His flamboyant effusions were printed on Tuesday, December 6, and had no effect, and it may be pretty definitely figured that if effects follow any such scare heads they will be immediate. Mr. Roosevelt's message, which appeared on the same day and which recommended that authority be given to the Interstate Commerce Commission in the matter of fixing railroad rates, probably had much more effect than Lawson's fulminations, but the President's views were not so quickly assimilated. Personally, I was watching the

* This chart appears on page 14 of the Book of Charts issued in connection with this volume.

technical situation very closely in 1904, anticipating trouble, although I was, for the long pull, very bullish on securities. The trouble was that everybody had made up their minds that we were in for a bull market, which we were, but too many weakly-margined accounts precipitated a smash of moderate proportions.

There is no reason to believe that the same thing may not happen in 1908 if Mr. Taft is elected, and if he is, it will probably be better to wait a bit before selling. I will keep clients posted of any change in the technical situation from day to day to the best of my ability.

I reiterate that the modifications offered above do not cancel the views expressed in last week's letter, but represent merely an extension of the days of grace.

In the event of Mr. Bryan's election there is certain to be a sharp dip, but it will be soon over and stocks should be purchased on a decline arising from this contingency. Some competent judges figure that with a Democratic President and a Republican Senate there will be a very little legislation, which, according to their views marketwise, is a consummation devoutly to be wished.

The General Situation.

Business conditions continue promising in almost all lines. In a bulletin to be issued by the Department of Commerce and Labor this (Saturday) afternoon attention will be called to increased importation of manufacturers' materials as compared with September, 1907. It is pointed out that imports of crude India rubber are 60% greater than a year ago; hides and skins 50% greater; pig copper 25 per cent.; tin 23 per cent.; fibers 35 per cent.; and tobacco 50 per cent. Commenting on these figures the bulletin will say, in part:

"As these are the chief articles brought from foreign countries for use in manufacturing, this increase of from 25 to 60 per cent. in the quantity imported seems to indicate a marked increase in activity in the principal manufacturing industries of the country. Many other articles for use in manufacturing show an increase in September, 1908, over September, 1907: while in but very few cases, notably lumber and wool, is the quantity in September, 1908, below that of September, 1907."

The steel and iron business shows slow but steady improvement, and reports are coming from the West of increasing orders by the railroads for equipment and structural material. Rogers, Brown & Co., the largest iron concern in the world, in their weekly letter (October 24), say in part:

"The week shows a very decided change for the better. Several large sales of basic running from 3,500 to 10,000 tons for nearby delivery, have been made and a five-year contract involving 350,000 tons of basic is also reported. Malleable sales occupy a position of next importance and total a very respectable tonnage. In foundry irons things are also more active. From the tone of inquiries and

orders placed it is evident that melt is increasing and many foundrymen will need more iron than they anticipated before the end of the year.

"Within the last three or four days a number of large and shrewd buyers have evidently made up their minds to cover as far into next year as possible, if they can secure what they consider favorable prices. Most sellers are not inclined to quote at all for next year until the election is over, and the few that are quoting ask prices considerably higher than the current market. Altogether there is an atmosphere of hopefulness and semblance of activity that has been lacking for some time."

The copper trade shows some improvement, both in demand and in the price of the metal. This improvement will probably continue for some time.

The textile trade also shows betterment. Jobbers in cotton, woolens and dry goods are almost a unit in predicing better times.

Money continues in plentiful supply in both foreign and domestic centers. The reserve of the Bank of England shows at 53.62% in the statement of October 29. This is the largest October reserve for many years with the exception of 1904. In spite of some increased demand for funds, both at home and abroad, rates bid fair to remain easy for some time.

Consider the general situation very promising.

The Technical Situation.

The technical situation is strong, not because of a large short interest, which I do not think exists, but because of the sold-out condition of weaker traders. The odd-lot public buying which has been going on recently, and to which there appears to be no end, is principally of an investment character or is held on very ample margins. It is not probable that any notable change will occur in the technical situation after election. The absence of a short interest militates against any runaway bull market at present, but on the other hand the absence of a weak long interest forbids a serious decline.

Stocks are in strong hands and the technical situation is satisfactory to holders.

Conclusion.

While it is my opinion, as expressed above, that stocks will continue upward for some time if Mr. Taft is elected, this advance will probably be at the expense of a solid underpinning. The technique will grow weaker and weaker until a clean-up becomes expedient, not to say imperative. Just how long this upward tendency will endure or how far it will go, measured in points, I cannot pretend to predict. If we could map out a cut and dried rule for such movements, research or market letters would be unnecessary. Everything depends on developments, both fundamental and mechanical. It will be my business to watch carefully

the progress of affairs after November 3 and sound a note of warning as soon as danger threatens. Meanwhile would advise purchases of stocks on all reactions and would refrain from selling anything for the present.

In my opinion the copper stocks, the equipment shares and the low-priced rails offer the best opportunities with the minimum of hazard. Of course, they will not move upward so rapidly as the high-priced leaders, neither will they break so rapidly in a decline. Everything considered, the groups mentioned above are preferable at present.

November 7, 1908.

With the election over and the important contest decided in a manner entirely satisfactory to business interests it is pretty hard to figure out anything which can seriously interfere with gradual and healthy improvement in all lines. Wall Street's horizon, however, is never entirely cloudless for any length of time, and if no actual danger threatens something artificial is pretty certain to be created. Even if such canards are laughed to scorn, the very fact that everything is too rosy will stimulate activity on the part of reckless operators, and the technical situation will, through its own potency, bring about a decided reversal, no matter how sound the basic conditions may be. In the long decline of 1907, for example, there were several drastic advances which could be attributed to nothing but one-sided participation, as conditions were bad and steadily growing worse. Again, in 1908, with the warrant for a great advance perfectly evident to careful observers, we have witnessed two very sharp declines, one in May and one in September. It is possible that our present upward trend will continue without serious interruption well into 1909, but persorally I do not think it is probable. Leaving the possibility of accidents out of the question, we will find as we progress that the spectres of war scares, crop disasters, etc., will be dragged out and dangled before our eyes from time to time, and while they will have no power to check the progress of ultimate prices, they will have a temporary effect, particularly if they are produced at a time when the market is in a vulnerable position.

It sounds anomalous to say that a severe decline may occur because of too much well-founded good news and too many roseate prospects, but such is the case. Under such circumstances the sensitive mechanism of speculation becomes clogged by one-sided operations, and it is necessary to stop and clean it before the machine will run smoothly. We can easily understand the position of important operators in periods where an indiscriminate crowd of public venturers are paralleling their own commitments.

They reason correctly that their followers are subject to fright or panic at any time. They argue further that the vulnerability of the list is known to the bear element and that the bears will move heaven and earth to depress prices. Also they know that with the public buying freely, they (the important interests) can find a market for holdings and they do the simplest and most logical thing in the world, *i. e.*, sell their holdings and help the bears to drive away the weaklings. They literally take the bull by the horns. The result of this scheme is that a little later on holdings can be repurchased from the disgusted or busted public at lower prices; that the dangerous following is eliminated and that the eleventh-hour bears have created a short interest.

The above remarks are offered now because it is my opinion that something of this kind may be expected before long. Just when, I will not undertake to predict, as we can only determine the danger by watching the character of the buying and selling and the changing of the technical structure. It is my present opinion that the reversal will occur from a higher level and that it will not occur at once. Such views, however, are necessarily subject to change.

Our railroad reports are now beginning to show great improvement and will continue to do so for some time. The casual observer is liable to be misled by reports from now on unless his comparisons are carefully made. The earnings after this month when compared with corresponding months of 1007 and 1908 will be magnified by contrast with the slump in a period of business paralysis. In order to demonstrate this clearly I have prepared the following tabulation:

TABLE SHOWING GROSS AND NET EARNINGS OF 10 IMPORTANT RAILROADS, BY MONTHS, IN 1906, 1907 AND IN 1908, SO FAR AS REPORTED, FOLLOWS. THE ROADS SELECTED ARE:

Atchison	Norfolk & Western
Baltimore & Ohio	Pennsylvania
Erie	Reading
Illinois Central	Southern Pacific
Louisville & Nashville	Union Pacific

Various trunk lines, which make monthly reports now, under Interstate Commerce rules, did not do so in 1906 and 1907, and are not therefore available for this tabulation. The 10 above referred to are excellent for this comparison; they average well, their traffic having been affected only by causes operative only in the country at large, the crops, state of business, etc., and they may be taken as representative in a general way of the whole body of railroads.

	Gross.	Net.
	1906	1906
January	$59,747,726	$18,545,025
February	55,933,955	16,005,920
March	62,088,252	20,370,823
April	54,541,397	16,720,536
May	61,183,437	19,245,253
June	62,203,709	19,058,028
July	61,177,609	20,987,963
August	64,669,964	23,311,586
September	64,510,722	23,565,855
October	71,293,845	26,428,162
November	69,101,307	24,951,317
December	68,223,408	22,419,276
	1907	1907
January	$66,244,115	$17,217,872
February	60,834,425	15,618,134
March	67,371,480	19,317,762
April	69,787,136	20,425,228
May	72,445,406	22,136,425
June	70,611,404	21,863,328
July	71,779,905	22,262,963
August	74,258,087	23,310,984
September	71,773,120	20,860,748
October	77,997,996	22,246,565
November	71,788,925	20,297,589
December	64,583,127	16,626,070
	1908	1908
January	$57,341,563	$12,571,031
February	52,052,410	11,411,396
March	56,979,711	16,420,082
April	58,452,538	16,419,890
May	57,080,625	16,931,267
June	57,644,812	20,497,997
July	59,815,410	20,360,369
August	62,609,659	21,594,565
September	....	....
October	....	....
November	....	....
December	....	....

In regard to the sudden jump in net in March, 1908, it is found that this was characteristic of the entire 70 roads whose reports are analyzed in this office.

In this regard it may be pointed out that it was persistently urged in these advices early in 1908 that the economies of operation following the panic must soon result in great improvement in net earnings even if gross did not rise. This is forcibly shown in the gross and net of October, 1907, which was the banner month of the period consulted as contrasted with the figures for August, 1908. In the earlier period the

gross was over $15,000,000 greater than in August, 1908, while the net shows a decline in August, 1908, as compared with October, 1907, of less than $1,000,000. The old cry that these economies were effected at the cost of maintenance is not supported by statistical exhibits. They represent, rather, the elimination of extravagance and waste.

The General Situation.

The general situation is improving. Such orders as were withheld pending the elections have given a stimulus to trade appearances, but it is probable that business will gradually resume normal proportions without any undue activity. In many quarters too much credence is attached to predictions of a great boom in business. This is neither probable nor desirable. What we want is a steady growth.

The October iron production was greater than for any previous month of 1908 and November and December will show a further betterment. Unfilled tonnage should also increase in the fourth quarter.

The copper metal trade is looking up nicely. We mav expect a very decided improvement in this quarter.

General mercantile lines report good progress.

The slightly hardening tendency of time money reflects more than anything else the greater employment of funds in general business.

Consider the general situation quite satisfactory.

The Technical Situation.

As has been suggested, the technical situation is growing weaker, but cannot as yet be designated as "weak." It takes time to distribute stocks, but some distribution by good interests is already in evidence. A good judge of technical conditions informed me yesterday that he had made a canvass of the restaurants in the Wall Street district and found that their business had increased enormously in the last few days. He argued, I think correctly, that this increase was due to an influx of outside participators. I also note that the attendance in brokerage houses catering to a public clientele has increased in a marked manner in the last few days. These are straws but they indicate the direction of the wind.

Aside from the shifting of the location of shares, there are some attempts to make business look extremely favorable which are not convincing to experienced observers. The Northern Pacific melon cutting, for example, is not liked. There was too much mystery and delay about the matter, and the unexpected action immediately after the favorable election news does not inspire confidence.

The situation is also weakened somewhat by the introduction of numerous stop-loss orders just below the market. These orders emanate principally from operators who have large profits and who don't want to see them vanish.

The technical situation is fairly good, but is being gradually weakened.

Conclusion.

While I do not change my recently expressed views that the trend of prices will be upward for the present, there is enough of danger in the situation to warrant conservatism. On these bulges we may consider it an error on the side of prudence to accept profits on at least a portion of holdings. We should discriminate intelligently, however. Such stocks as United States Steel, American Locomotive, American Car and Foundry, and in the low-priced rails Colorado Southern, Erie, Chesapeake & Ohio, etc., will suffer far less proportionately in the event of a collapse than will Union Pacific, St. Paul, New York Central and Reading. The blow will fall heavily on the so-called market leaders which have been subjected to manipulation recently. In the dividend-paying group I would consider Atchison and Pennsylvania comparatively immune in the event of a decline. These two stocks are very strongly held, have not been much manipulated, their statistical position is good, and the floating supply is limited.

As is customary, a chart showing movements of stocks for the month of October follows:*

Saturday, November 7, 1908.

Note.—This letter is necessarily placed in the printer's hands at 12 noon, Friday. Since it was written the advance in prices and the rather obvious manipulation in such stocks as New York Central lead me to emphasize the views expressed above. While the market may continue strong for a few days, I think it best to accept profits on any further bulges. There is too much red-fire in to-day's market.

This note is added at the last minute to obviate the necessity of telegrams, except to foreign and Pacific Coast correspondents.

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* This chart appears on page 10 of the Book of Charts issued in connection with this volume.

November 14, 1908.

The stock market, so far as immediate movements go, is in a perplexing position. Twice before in the year 1908 this uncertainty has been in evidence, once in May and again in September. The perplexity was in both the former instances due to the same factors which cause confusion now, i. e.: fundamentals warranting higher prices for stocks while technical conditions suggested danger.

At present, however, the situation is unusually disturbing because of the greatly increased day to day operations on the part of professionals and the public. Investigations as to the character of buying and selling and the position of stocks de-

velop one thing to-day and something different to-morrow. For example, one concern catering to an indiscriminate speculative trade informed me on Tuesday that their books held practically no short accounts and that public holdings were large, with many stop orders just below the market. These conditions, verified from numerous other sources, led to my advice on November 10 to step aside temporarily. Following the break of a few points in leaders on Wednesday, however, the same concerns found that a number of weak accounts were quickly eliminated and considerable short selling was in evidence.

One factor which has recently been very misleading to the student of the machinery of the market is the switching on the part of the public element from one stock to another. We have been educated up to the theory that the public is usually wrong and when we see them coming into Wall Street in force after a great advance we at once reason that they come at the eleventh hour to buy stocks and that consequently we are approaching the culmination. But underestimating other people's intelligence is a fatal error. When I saw the crowd appear in this district after the elections and observed the increase of business as represented by the daily sales I became alarmed as to immediate possibilities. This view was shared by the best judges of movements, but after I had an opportunity to examine the nature of this heavy trading it was found that much of the volume of business represented nothing but changing from one class of securities to another without materially increasing the daily balances. As this changing was principally in the nature of selling high-priced stocks and buying low-priced issues the actual cash employed in transactions was reduced; the technical situation was not weakened by increased volume of outstanding commitments and was strengthened by an increase in the amount of money available for speculative purposes. The man who sold 1,000 Union Pacific and purchased 1,000 or even 2,000 Erie cut down his borrowing necessities very materially.

I do not mean to offer the opinion that the public element has suddenly grown extremely wise, but there is certainly a great improvement in methods. A few years ago the outside trader wanted his broker or adviser to tell him what to buy—nothing more. To-day this same contingent make the broker who doesn't know his business very unhappy. They want information about fixed charges, maintenance, and all the fundamentals specific and general. They are, in fact, doing a little thinking on their own hook, which is a mighty good thing. The old adage that the public loses is still in force, but methods are gradually improving.

But to return to the question of the technical situation. A careful canvass of leading houses at as late an hour as would permit of the results being set forth in this letter, satisfies me

that while the little shake-out in the leaders has somewhat strengthened the immediate situation and that the switching discussed above partially cancels the opinion that marginal holdings were being greatly increased, I feel quite sure we are not on safe ground yet. As I analyze the matter it is possible, even probable, that we will witness some further advance from this level—say a point or two on the average—but such an advance will be accompanied by wild specialized movements and much excitement. Following such conditions we are bound to have a good big shake-out regardless of basic conditions. Admitting the improved methods of public operators, there is still a large eleventh-hour element, and the very fact that good stocks are cheap will lead the more adroit and powerful interests to do everything they can to drive the interlopers away. We have at present nothing but good news. The genuineness of our good prospects is not questioned, but Rome wasn't built in a day and we all know how quickly appearances can change in this business.

The above remarks apply particularly to the stocks in which greatest public interest is shown and the opinions offered refer to the near future. I do not think there is any danger from the long distance point of view.

Considerable interest was shown in the tabulation of railroad earnings last week, and in order to show the relative movement of stock prices and earnings, the following charts* have been prepared. The ten stocks selected are:

Atchison.	Norfolk & Western.
Baltimore & Ohio.	Pennsylvania.
Erie.	Reading.
Illinois Central.	Southern Pacific.
Louisville & Nashville.	Union Pacific.

The General Situation.

The general situation is most favorable and the future is very promising. Stocks of goods were so depleted in the recent panic that it is reasonable to expect record-breaking business in many lines. This growth is certain to have a beneficial effect on stock prices and values, but it is necessary to reflect on the large and almost uninterrupted rise which has occurred in anticipation of such improvement. Some of our leading shares are not far from the highest prices ever reached. Some securities have broken all old records. This is a rapid and remarkable rehabilitation from a period of depression, and everything in history warns us that we usually go too fast and too far under such conditions and that no matter how genuine our recovery may be, the stock market must now and then suffer a surprising and drastic reaction.

The details of business improvement have been featured and fully covered by our daily papers this week, and it is not

* These charts appear on pages 38, 39 and 40 of the Book of Charts issued in connection with this volume.

necessary to enter into the usual details here. Reports from every line reflect activity and hopefulness. Most of the good news appears to be genuine, but some of the hopes are a trifle extravagant.

The Technical Situation.

The only late development to be added to the views offered on the technical situation is that to-day (Friday) I find the short interest practically eliminated by the advance. There is also palpable manipulation in some quarters and much wash sale trading.

Conclusion.

While there are opportunities for profit for the day-to-day operator in this market, and we may witness several days of advancing prices, I consider the situation marketwise as very dangerous. There are a number of low-priced stocks which should have their turn. Wisconsin Central preferred looks very attractive and will probably go on a 4% basis. Allis-Chalmers is another of the stocks which has been somewhat neglected. It is very cheap. The declaration of a dividend on Colorado Southern is not a bull factor on the shares. I have made a pet of this security for several months because I felt sure its statistical position warranted an advance and the payment of a dividend. Now that those views have been justified and both the advance and dividend are matters of history, it is my opinion that the matter is discounted. Steel common is perfectly safe to buy on the scale order, even considering its record-breaking prices. The stock is worth 70 or 75. American Locomotive, American Car & Foundry and Pressed Steel Car are also safe.

Admitting the possibility of some further advance in the general list, it is highly probable that the operators who can exercise the patience which is necessary to success will be able to replace holdings at a lower level in a few weeks.

November 21, 1908.

While it is impossible to accurately gauge movements by mere reference to precedent, it is also true that there is more or less similarity in the action of the stock market during and following great movements. It is, therefore, interesting at the present time to note how far our recoveries from great declines have progressed without a material interruption. In the following tables I have exhibited the great movements since 1865. The examination has not been confined to what are strictly characterized as panic years, but covers all great recessions and advances.

The matter has been looked at from three different angles—the percentage of decline from the top; the percentage of advance from the bottom, and the percentage of recovery to the decline.

The third equation (percentage of recovery to decline) is produced because of the misleading appearance of percentages. For

example, if a stock declines from $100 to $50 the percentage of decline is 50%. If this same stock recovers from $50 to $75 the percentage of advance is also 50%. The casual observer might jump to the conclusion that as the stock has declined 50% and advanced 50% all, instead of half, the loss had been regained, when in fact the *percentage of recovery to the decline* is only 50%. In the first two instances we are working from two different bases.

The following facts relate to the movements of 20 active railroad stocks in years of great declines and recoveries.

For 1865, the 20 railroads are:

Chicago & Rock Island
Chicago & Alton
Chicago & Northwestern
Cleveland & Toledo
Cleveland & Pittsburg
Clev., Cin., Chic. & St. L.
Chicago, Burlington & Quincy
Delaware & Hudson
Delaware, L'kawanna & West'n
Erie
Erie pfd.
Hudson River
Illinois Central
Michigan Central
Michigan Southern
N. Y. Central
Ohio & Mississippi
Pittsburg, Ft. Wayne & Chicago
Reading
St. Louis, Alton & Terre Haute

For 1873, 1876, 1877 and 1880, the 20 railroads are:

Central of New Jersey
Chicago & Alton
Chicago, Burlington & Quincy
Chicago & Northwestern
Chicago & Rock Island
Clev., Cin., Chic. & St. L.
Delaware & Hudson
Delaware, L'kawanna & West'n
Erie
Hannibal & St. Joseph
Illinois Central
Lake Shore
Missouri, Kansas & Texas
Michigan Central.
Milwaukee & St. Paul
N. Y. Central
Ohio & Mississippi
Pacific of Missouri
Pittsburg, Ft. Wayne & Chicago
Union Pacific

For 1884, 1890, 1893 and 1896 substantially the same stocks are used, except that Atchison, Canadian Pacific and Louisville & Nashville are substituted for Chicago & Alton, Hannibal & St. Joseph and Ohio & Mississippi.

For 1903 and 1907 the stocks last referred to are used, except that Reading, Pennsylvania and Southern Pacific are substituted for Chicago, Burlington & Quincy, Lake Shore and Michigan Central.

Stocks which were cornered, in the different years, and forced to abnormally high prices, have been avoided, because those would destroy the value of the averages.

The decline and rallies seem to have been governed largely by the question whether a general bear or bull market was in progress.

1865.

Jan., 112¾.
March, 80⅞, a decline of 28.38 per cent.
October, 104¾, a rally of 29.67 per cent.
The recovery was 74.9 per cent. of the decline.

From October, the trend was downward into 1867.

1873.

January, 88⅜.
November, 55⅛, a decline of 37.62 per cent.
Jan.-Feb., 1874, 80⅝, a rally of 46.26 per cent.
The recovery was 76.69 per cent. of the decline.

The market then moved within a moderate range for about a year, and in 1876 started heavily downward again.

1876.

February, 72⅞.
September, 50½, a decline of 30.31 per cent.
January, 1877, 56⅛, a rally of 11.44 per cent.
The recovery was 25.14 per cent. of the fall.

This last rally was merely a halt in a bear market, and in 1877 the market went on down lower than before.

1877.

January, 56⅛.
April, 39⅛, a decline of 30.29 per cent.
June-July, 1878, 59⅛, a rally of 51.12 per cent.
The recovery was 117.64 per cent. of the decline.

Then, after a strong reaction, the market went on upward for three years.

1880.

A bull market was interrupted by the unfortunate incident of a receivership for Reading, May 24.

March, 96⅜.
May, 78¾, a decline of 18.29 per cent.
May-June, 1881, 118½, a rally of 50.47 per cent.
The recovery was 223.95 per cent. of the fall.

After that the market went downward for about four years.

1884.

February, 88¼.
June, 59⅝, a decline of 32.44 per cent.
August, 76¾, a rally of 28.72 per cent.
December, 60⅞, a decline of 20.68 per cent.
Nov.-Dec., 1885, 85⅛, a total rally of 42.76 per cent. from June.
The total recovery was 89.08 per cent. of the fall.

A strong reaction in 1886 was followed by a long and irregular rise into 1890.

1890.

May, 91⅜.
November, 67⅝, a decline of 25.99 per cent.
February, 1892, 91¼, a rally of 34.93 per cent.
The recovery was 99.47 per cent. of the fall.

After the Baring panic in November, stocks rallied irregularly into February, 1892, as above, and then began the fall, which culminated in the panic of 1893.

1893.

January, 85½.
July, 56⅞, a decline of 33.43 per cent.
October, 72¼, a rally of 27.03 per cent.
A recovery of 53.71 per cent. of the fall.

From this time, the stocks fell for pretty nearly a year.

1896.

February, 72¼.
August, 57⅝, a decline of 20.24 per cent.
November, 72, a rally of 24.94 per cent.
A recovery of 99.25 per cent. of the fall.

From November stocks fell slowly into the middle of the next year.

1903.

January, 133⅛.
October, 97¾, a decline of 26.57 per cent.
December, 1904, 136½, a rally of 39.64 per cent.
The recovery was 109.54 per cent. of the decline.

A great bull market began in 1904, which ran on with strong reactions until the latter part of 1906.

1907.

January, 149⅞.
November, 94¾, a decline of 36.78 per cent.
Nov. 17, 1908, 139¾, a rally of 47.49 per cent.
The recovery has been 81.65 per cent. of the decline.

Taking what are called "panic" years (1865-1873-1884-1893 and 1903) we find that the average percentage of recovery from a

great decline was 80.80%. At the present level the recovery of 1908 has been 81.65%. The fact that calendar years were employed rather exaggerates the recovery of 1904 as stocks sold considerably higher in the fall of 1902 than at any time in 1903.

We have heard a great deal recently about "concealed assets." The 11% melon just cut by Northern Pacific comes under this head. Now we are told that this same great corporation has other assets, of which the stockholders know nothing. Also we are informed that the Union Pacific Company has $50,000,000 somewhere in a dark corner, and so following.

It is my personal opinion that concealment of *assets* is as bad as concealment of deficits. I hold that every stockholder in a corporation is a partner in that enterprise and that concealment of *anything* good or bad is a lie, and a lie is no good at any time.

Aside from the moral aspect of the question, which it is not my province to discuss, I naturally ask a few questions.

1.—Why were these assets concealed when a knowledge of their existence might have induced people to buy the stocks concerned at a time when it was really expedient to buy them?

2.—Why are they dragged out of their hiding places and dangled before our admiring eyes *now?* Is this frank exposition of great wealth promulgated for the purpose of inspiring *sales* of the securities affected? I THINK NOT.

3.—Why are these assets concealed AT ALL?

Personally, I have no kick coming—neither have my friends—for we foresaw this deception and anticipated the course of values, but it behooves us to disregard at present this vivid optimism just as we disregarded a year ago the unwarranted pessimism.

It is true, however, that when good news is so industriously circulated by inspired articles in the public press; by expositions of the character mentioned above and by the assiduous distribution of tips, some effect will be felt in quotations. Deceptive appearances are easily created by manipulation of this or that specialty, the stocks most in the public eye being naturally employed as stalking horses. Just how far manipulation may carry stocks upward cannot be accurately measured, but it is quite certain that when such methods are resorted to buyers of stocks are in a dangerous position. How frequently we see the profits gained in a year's speculative campaign swept away in a day because of the quite human proclivity to go after the ultimate dollar and the impatience which is a component part of our make-up.

It will be understood that I am not bearish on this market, so far as the long future is concerned. On the other hand, everything warrants the belief that great opportunities for profits through judicious purchases will occur in the next year or two. Probably we will witness one of the greatest bull markets in history, but there has never been a time when a movement was not subject to important reversals and such a period we are, in my opinion, now approaching.

The General Situation.

While the genuineness of the improvement in general business cannot be questioned, I fear that our heavy influx of orders, etc., is in danger of exhausting itself, or rather of slackening up in such a manner as to render comparisons odious. The glowing newspaper reports appear to be exaggerated and at times inspired. We get reactions from a prosperity bulge in business just as we get reactions in the stock market, and while the trend may be upward we want to look out for the larger fluctuations.

Consider the general situation promising, but somewhat colored and over-estimated.

The Technical Situation.

The technical situation is not strong. True, there is only a moderate floating supply of stocks. There has been considerable public absorption since November 3, but as has already been pointed out in these advices, a good portion of this buying represents shifting from one stock to another. While such action does not weaken the technical situation as would be the case if lines were increased or pyramided, it keeps some floating stocks in the street. It is also quite certain that lines held on margin have increased somewhat independent of this switching. There are also a great many stop-loss orders and last, but not least, a very limited short interest. All this renders the list vulnerable.

It is peculiar to note that a great many observers are offering the theory that as everybody expects a reaction it will not come. The peculiarity lies in the fact that this great majority presumably anticipating a decline cannot be found. Yesterday I questioned about ten operators and from all received practically that same statement, i. e., that everybody looked for a decline and that it would not appear. Here then were ten speculators who did not anticitpate a decline and who did not support their tentative statements. Of course, there is always a diversity of opinion, and some writers and brokers are arrayed against the market, but I fail to discover any preponderance of opinion as to a considerable reaction. In fact, the very absence of short selling and the continued influx of buying orders belies the theory that a decline is generally anticipated.

Consider the technical situation weak.

Conclusion.

Under present circumstances I think it better to continue the attitude recommended in recent letters. Short sales are dangerous always in a bull period, but they are safer now than for some time past. I do not personally recommend short selling, preferring to adopt a neutral attitude until purchases are warranted. It is very difficult to convince the ordinary operator that a period of non-participation is desirable and healthful now and then, and, of course, it is very disagreeable for an adviser to say "do nothing." A great many people figure that they pay me for positive, not nega-

tive, advice; that they want to be informed what to do rather than what not to do. I would be a poor guide, however, if a mere desire to please my impatient friends could influence me to enter a guessing match. The hazards of the game are so great that when danger threatens or when movements are uncertain we are sure to make money by acting as spectators. Fortunately we may, in ten months out of the year, offer more or less decided advice on reasonable expectations of success. It will not be long until our opportunities will again be presented. Pending a clearer atmosphere we must, in order to conserve the factor of safety, stand aside.

November 28, 1908.

There has been little of interest this week in the course of stock fluctuations or in the developments upon which such fluctuations are ostensibly based. Aside from the usual grist of jingo talk and minor items of gossip, about the only news affecting prices has been the projected $74,000,000 common stock issue of the Southern Pacific and the $30,000,000 bond issue of the Erie system. The former corporation's forthcoming financing was heralded with great joy by Wall Street, while the Erie's financing met with dark looks. This may be partly attributed to the fact that the Southern Pacific issue is assumed to be in the nature of a refunding operation, while that of Erie is for improvements. But, aside from this, Southern Pacific is a very popular stock, and Erie is the subject of much prejudice. On the theory that the king can do no wrong, a bond issue or any kind of an issue by Harriman Pacifics is a bull point. How justified this feeling may be only time will tell, but we have only to look back at the career of many great roads to find that things switch around very rapidly in the investment world. Take the history of Richmond Terminal for example: when that road was a prime favorite it was merely a shell, as was shown by future results. Meanwhile other systems which were despised have sprung into prominence. It is not so very long ago that Union Pacific was a public pauper, and only a few years since Reading was in the hands of receivers and its stockholders assessed heavily.

Attention is not called to these things for the purpose of belittling the achievements of our captains of finance. Mr. Harriman is a great railroad man and has unquestionably directed the affairs of his railroads wisely. But he only helped. The development of the West was the great thing. The Union Pacific system would be a great one to-day if Mr. Harriman had never been heard of. There is also a danger, a very great danger, of a much vaunted and unusually successful man allowing his ambition to lead him too far.

But the most important thing to be considered when reflecting on the history of such roads as Union Pacific, Reading,

etc., is the great opportunities of the same nature which now lie in many of our low-priced stocks. The man who predicted that Erie, or Colorado Southern or Southern Railway or any of those little fellows would be worth as much in a few years as Union Pacific, St. Paul, Southern Pacific, etc., are now, would be greeted with a smile of derision. The perspective of the speculator is very limited. He sees only a little way ahead, but his memory is pretty good, particularly if he has been "dumped" in a certain stock. That is one thing which weighs against Erie—it has a bad record. But that is no reason why under present management it should not sell much higher. I do not point to Erie as a special favorite, but merely as a representative low-priced stock.

In my opinion, it is, for the present, more important that we should confine our examinations and operations most particularly to the low-priced group. I believe our greatest opportunities are going to be found in these securities. They must be examined largely for their physical condition, earnings and future potential dividend possibilities rather than for income return. It is the most surprising thing in the world that anyone should attempt to gauge the future movements of stocks by income return alone. Yet dozens of letters are received in this office showing this is what the writers are trying to do. When some time ago I strongly recommended Amalgamated Copper and U. S. Steel common, a great many people hastened to point out to me that I was wandering in Stygian darkness, as would be found when I compared the income return (2%) on these two stocks with the list enclosed by the writer, etc.

If we could only find some way to beat the game on that principle I would go out of business. All we would have to do would be to figure up the rate of income, buy what paid the largest and sell what paid the smallest income and lo—a cinch. Just as big a cinch as the thousands of people had who carried their Northern Pacific along to "get that 11% dividend."

In order to facilitate the selection of low-priced stocks particular attention will be paid to these securities for a time. Next week a table will be produced showing the relative standing of some of the best of these securities.

In particularly favoring the low-priced shares there is no prejudice to the high-priced dividend payers. But, in my opinion, the opportunities are greater in the former group and the danger is not nearly so great. These high-priced stocks are much manipulated and appeal to the impatient ones by their activity. They may go higher, but even if we are going to pile a 10-point advance on top of an 80-point advance, going after that last ten points is a method that will in time certainly result in disaster. It is better to let these big men play with their own toys in a period like this, especially when they are all

feeling very kindly towards each other and are purring amiably at the public.

In the last weekly letter figures were produced showing the extent of recoveries after great declines. As the matter is interesting, and as my method of setting forth the percentages appears to have been somewhat involved, the following chart* is produced reducing the same figures to a more graphic form. The recoveries are not limited to the year of panic, but represent the advance which followed panic declines. Thus, in the year marked 1907 the advance is that which has occurred up to date in 1908 from the bottom of the panic of 1907. The black perpendicular lines in Chart 2 show the recoveries in percentages instead of points.

The General Situation.

General business continues good, but there is still much exaggeration in the public press. This jubilant view is not found in the better class of trade organs, which may certainly be considered more reliable than municipal dailies, so far as their particular field is concerned.

Railroad earnings are showing up in a most gratifying way, but this showing is also misleading to the superficial observer. The comparisons now being made are with the lean months of 1907. In December, 1907, net earnings had about reached the lowest points of several years. They continued downward until February, 1908. It must also be conceded that the recent marvelous improvement of net as compared to gross cannot by any possibility be continued. The great gains in net during recent months have been the result largely of economies which were effected at a time of stagnation when officials, great and small, not only saw the necessity of pruning, but had the time to do it in detail. If we are to have the great activity which we are promised many of these economies will vanish. It is probable, in fact, that we are at the approximate pinnacle in this rapid gain in net over gross. True, some of the changes effected will result in lasting benefits, but many economies were and are dependent on stagnation. For example, in the wholesale reduction of forces only the very best men were retained. It was suggested in these advices early in the year, in anticipating this advance in net, that the gain in the efficiency of labor could be estimated at from 25 to 50%. But as our activity returns we must accept not the most efficient men, but the best we can get and eventually anything than can sign a pay-roll.

* This chart appears on page 33 of the Book of Charts issued in connection with this volume.

Our comparison of railroad earnings should be carefully reviewed before we allow it to become convincing, and it is my opinion that we can measure our progress more safely by comparisons with immediately preceding months than with the months of an abnormal year. We will get a much better light on the subject by comparing October, 1908, with September, 1908, than with October, 1907.

Money remains very easy, and here again it is rather difficult to understand why, if this terrific influx in business is upon us, money is not more fully employed. If there is so much money that ample funds can be provided for both the predicted great business revival and the predicted great bull market all well and good. If not, the stock market may find itself between the devil and the deep sea. If business does not boom the speculator's hopes would be dashed even with plenty of money, and if business does boom and they don't have plenty of money, how sad. This may sound facetious, but it's more truth than levity, for the moral is that we want no great boom in business and no great boom in the stock market. We want to move forward in a gradual and orderly manner in both. "Abnormal conditions," said Jay Gould, "never benefit anybody."

The Technical Situation.

In the decline of last week it is quite certain that a small interest of the weakest order was attracted to the market. This was increased on Monday and the inevitable resulted. I have not been able personally to make careful investigations this week owing to illness, but from what I can discover, this short interest consisted almost entirely of public traders who had sold out at good profits and simply could not take a neutral attitude until an opportunity presented itself to replace holdings to advantage. Not wanting to buy, they sold short. There is still a portion of this selling outstanding, and it may result in some further flurry, but all such advances will meet stock and as soon as the hurrah is over the market will sink quickly

Conclusion.

There is a possibility, even a probability, of a trading market for a few days, with many ups and downs. It is also probable that efforts will be made to make the market appear strong by whooping up a specialty here and there or rushing up the general list whenever a short interest is found. The object just now is to get rid of stocks temporarily, and this cannot be accomplished

unless the majority to whom they are to be sold are convinced and enthused.

Appearances, therefore, are liable to be deceptive for a time, but it is extremely dangerous to enter into this manipulative campaign in pursuit of a few points. When the shakeout comes, and come it will, we will be able to pick up bargains with a feeling of safety and reasonable assurance of profit. Meanwhile, no sounder advice can be given than to be patient and get ready for business by a careful scrutiny of the low-priced issues mentioned and their relative merit.

If a neutral attitude is not found desirable I will state that I have every confidence in the employment of scale orders in such stocks as American Locomotive, Erie, Colorado Southern, United States Steel, Chicago & Alton, Allis-Chalmers preferred, Rock Island preferred, Wisconsin Central preferred, and American Car & Foundry. In a break these issues will suffer comparatively little, and a decline is, of course, to be desired where the averaging method is employed.

December 5, 1908.

The movements of the stock market this week have not been convincing to experienced observers. The orderly advance of the last year has been supplanted by unreasonable upbidding of prices in certain quarters and by much pool manipulation. The hopeful but conservative views of recent months have given place to foolish optimism and grotesque canards. Simple financial arrangements such as the one affecting Rock Island securities, instead of being looked upon as reasonably beneficial, have been made the excuse for violent and unhealthy advances. Tips have been handed out on practically everything on the list and ridiculous gossip masquerading in the guise of "inside information" is heard on every side.

That our general business is steadily and gradually improving and that the future is promising, cannot be doubted, but after a great recovery in stock prices, a recovery which discounts not only all actual but much prospective improvement, such market conditions as are mentioned above immediately suggest danger or a temporary culmination of the advance.

One of the most prevalent and most unfounded bull arguments at present is the contorted comparisons now being made with corresponding months in 1907. This method of deduction is applied to railroad earnings, bank clearings and all other barometers of business activity with a reckless disregard for the fact that such comparisons are with the lean months of a panic period and that

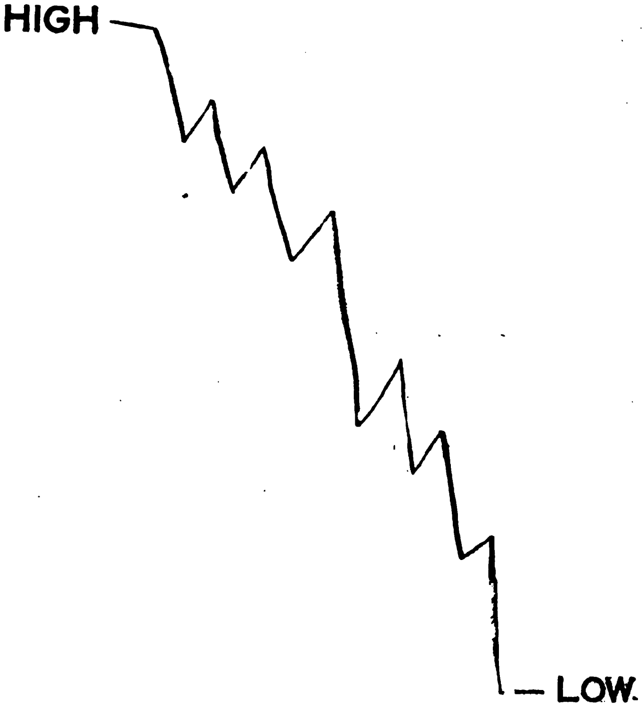
the stock market has already advanced to within about ten points of its highest recorded prices. In other words, the false comparisons are pointed out as a reason for further advances regardless of the well-known fact that such improvement is invariably anticipated in stock prices.

While the conditions mentioned above make the present market a dangerous one, it is not probable that any great decline will occur. The long future promises well and when the enthusiasts and manipulators are eliminated by means of a reasonable reaction, we will have plenty of opportunities on the long side. Meanwhile, participation is not desirable. Purchases made at this level will probably call for much patience and considerable capital. On the tenth day of November I advised disposing of holdings on all hard spots and while there has been some slight advance since that date (less than one point on the average), the operator who persisted in keeping busy has simply been scalping a dangerous market. The sound fundamentals on which he has based commitments for a year or more have given place to "trading" of the day-to-day character.

There is another form of operation which is now being indulged in and which is also fraught with an element of danger. I refer to short selling. It seems impossible to convince the ordinary operator that a neutral attitude is ever reasonable. My correspondence brings a dozen letters a day from people who have had everything their own way for a year, but who insist that if the market is not a purchase it is a sale. This is all wrong, and it is just this kind of greed and impatience which causes the majority to wind up the year with a loss. Incidentally every man who sells short now is contributing his share to delaying a natural and desirable reaction. This same trouble was encountered in the bear market of 1907. The advice in these letters at that time was to sell short on all rallies. In one or two instances advice was given to clean up and wait for a big rally on which to resell. A great many clients promptly proceeded to go long.

The rally after March 14, 1907, which was anticipated in these letters, brought so many inquiries as to why purchases were not safe, that in the weekly letter of March 16 I produced a rough diagram showing the danger of trying to operate on both sides in the same period. As the advice in 1907 was to confine operations to short sales on rallies, and the advice at present is to confine operations to purchases on declines, I will take the diagram mentioned and the text accompanying it and reverse both to fit present conditions. The wording used below is exactly the same as in the letter of March 16, 1907, except that seller is now rendered purchaser, etc.:

"Purchases on declines are the only safe commitments at present. It may appear that if the market is to sway back and forth, sales on advances and purchases on declines would offer the maximum of opportunity to the shrewd trader. But not so. Let me illustrate this.*



"As simple as this illustration may appear, it is worthy of most earnest consideration. True, the upward and downward movements show opportunities on both sides, but if the seller makes a mistake, as all speculators will, he is hopelessly involved. If he sells at the wrong point he will never see daylight during the progress of the movement. Look at the other side of the matter. The buyer cannot make a mistake. No matter at what point he buys a profit lies before him. A little reflection will show what a tremendous difference exists here.

"I think this will make it clear that there is a difference between accepting profits and putting money in jeopardy."

The sooner we get a reaction which will discourage this manipulation and undue enthusiasm, the better for all concerned. Whether or not it will come before any further general advance is established is a mater of conjecture, but the severity of the decline when it does appear may be tentatively measured in inverse ratio to the unwarranted upbidding of specialties.

The General Situation.

The general situation continues satisfactory, but there is nothing to suggest abnormal betterment. This is as it should be. We don't want anything abnormal either in business or the stock market. Wall Street has a "tip," probably correct, that the President's forthcoming message will be a bland and reassuring document, with the mute on the harsher verbal notes and a blue ribbon tied to the big stick. This helps some, but it is not at all capable of producing values or bringing about a permanent advance in stocks. According to the laws of compensation it is all right to give Mr. Roosevelt undue credit for his kind words, however, as he was blamed last year for a decline which he did not produce and could not have prevented.

The hardening in money rates is more important than any other single factor. It is quite certain that a good portion of our recent advance has been due to the hiatus between the price of money and the income yield on seasoned securities. It will not do to be too liberal in comparing these two factors. We cannot reasonably figure that if money is worth 6% and good securities yield 6% the equilibrium has been established. Most securities should yield more than money loaned on good collateral not subject to fluctuations. I have never seen this difference estimated, but it is being worked out now and will be set forth in next week's letter. The method of arriving at conclusions will be to examine income yield under normal conditions over a long period and compare this yield with temporary rates for time money. We may thus establish a rough rule of thumb.

We may find a good illustration of the misleading comparisons mentioned above by examining the bank clearings for the last three months as compared with corresponding periods in 1906 and 1907. The figures are as follows:

Total U. S. Bank Clearings.

Month.	1908.	1907.	1906.
September	$11,112,581,447	$10,573,022,063	$12,497,458,868
October	12,136,130,544	13,804,896,282	14,550,027,603
November	12,968,188,000	9,659,316,632	13,656,039,900

September, October and November, 1908, as compared with each other show a gradual and reasonable growth. But the enthusiasts are pointing to the increase of November, 1908, as compared with November, 1907, which was the "panic month." They do not go back to 1906 nor do they refer to the great advance in stock prices since November, 1907.

Mr. Ripley, president of the Atchison system, states in an interview published this morning (Dec. 4) that the improvement in railroad earnings is largely due to crop movements, that his road has plenty of cars, etc. Mr. J. J. Hill is inclined to scoff at our rapid improvement. While these views from eminent authorities

bolster up my own expressed ideas, I don't give too much credence to them, as both the gentlemen have been talking pessimistically for a year. However, they may be temporarily correct now, and their views are more in line with those of other eminent authorities than was the case heretofore. Mr. W. C. Brown, Senior Vice-President of the New York Central, for example, states that there is no evidence of unusual activity or sudden improvement, and expresses the opinion that railroads will buy very sparingly of new equipment or material until the question of freight rates is settled. There are several minor clouds on the horizon, but as is always the case in a manipulative period they are disregarded. One point which should be watched for its bearing on certain securities is the winter wheat crop. The Modern Miller estimates damage of 16 to 25% to this crop because of drouth.

The general situation is sound and satisfactory, but there is no wonderful or unprecedented improvement.

The Technical Situation.

The technical situation cannot be described as weak. It is, in fact, moderately strong. There has been a considerable amount of short selling by people who are bulls at heart, but who want to make a little Christmas money on the short side. As we pointed out in a recent daily letter, the pool manipulations have not enticed the public according to the schedules of the manipulators and they may attempt even more sensational measures in an attempt to stir the sluggish blood of the lambs. I happen to know about some of the pool operations and nothing has amused me in recent years more than the surprise and chagrin and even indignation because the public won't bite. Of course, these pool operators have money and are well protected, but in some quarters they are getting mighty weary.

There is also some support of a good character whenever quotations begin to crumble. Whether this is due to a desire to hold the market at a liquidating level or to keep up appearances pending the flotation of bonds is purely conjectural. This support does not appear to have for its object any upbidding of prices, as the securities purchased on weak spots are apparently peddled out on little advances. This is a very common form of manipulation in high quarters.

While the technical situation is moderately strong, it is not, in my opinion, sufficiently so to bring about any great advance, as there are plenty of stocks for sale on hard spots.

Conclusion.

This market is dangerous and uncertain. The safe deductions and the sane movements on which our recent advances have been based are absent. The very best class of operators have accepted profits and are awaiting a time to re-enter a healthy market a little later on. It will not be long until we will find the same opportuni-

ties as we had a few months ago. For that time we must wait if we are to conserve the factor of safety and if that fact is not accorded consideration the profits of the year will be jeopardized. Some of my clients are grumbling because of this neutral advice, but I can't help that. It is as much my business to warn of danger as to point out safe opportunitiies, and in the long run it is all right, as the merit of occasional non-participation is always admitted after it is demonstrated.

It was my intention to produce in this letter a complete table covering the relative merits of active stocks. This compilation has consumed more time than was anticipated, and will be produced in the letter of December 12.

Would let the market alone for the time being. It will sell higher later on, but there is a good chance for a considerable and rapid decline before the upturn is resumed.

As is customary, a chart showing movements of stocks for the month of November follows:*

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* This chart appears on page 11 of the Book of Charts issued in connection with this volume.

December 12, 1908.

An examination of the minimum and maximum yield of securities in the most important movements of recent years develops some interesting facts. Attempts to reconcile stock movements with the price of money did not produce satisfactory results, and in order to analyze this factor, further examinations will be necessary. It appears that stocks have frequently advanced during periods of high money rates and declined or remained dormant in periods of very cheap money. This is no doubt partially explained by the fact that when money rates are high in what are called "good times," such rates reflect the full employment of funds and a stimulation of general business which arouses enthusiasm and encourages speculation, while, on the other hand, very low rates for a long period may reflect stagnation. In 1905 and 1906, for example, four months' time loans brought 4½ to 7%, while stocks advanced. In 1895 four months' money went begging at 2½ to 3%, while stocks remained dormant or declined. Thus, in spite of this wide difference the stock market was strong in the period of high money and barely held its own in the period of abnormally low rates. All this is capable of analysis, and by consulting all the vital conditions which obtained we can always find good reasons for what might appear as irreconcilable discrepancies. Our present low money rates do not necessarily spell the stagnation of 1895. The panic of 1893 was much more severe from an economic standpoint than the cataclysm of 1907, and the period of recuperation was neces-

sarily longer in the earlier period. In 1895 we were also verging on Bryanism in its most virulent form—free silver. This issue is now dead and its former friends are saying "requiescat in pace" as devoutly as its ancient enemies. It must be admitted, however, that the present plethora of funds does not suggest the immediate and complete business rejuvenation which the extremists have predicted and the income returns on securities are not particularly alluring.

Leaving the question of the relations between money rates and stock prices for a future letter, let us examine the history of income return only, for a number of years. The table below shows the average investment yield on dividend-paying railroad stocks at various turning points in the stock market from 1889 to the fall of 1907. Only stocks have been selected for the computation which have been active leaders in the market, and for that reason such high-priced specialties as Lake Shore, Michigan Central and Delaware, Lackawanna & Western have been ignored, as they rose to the remarkably high prices of recent years. The number of dividend payers ten years ago has more than doubled since 1900, thus affording a broader basis for the computation.

Period.	No. of Stocks.	Average Price.	Average Dividend.	Average Income Return.
High, May-June, 1890	12	145⅛	6.37	4.16
Low, Nov., 1890	12	115⅞	6.37	5.50
High, Mch.-Apr., 1892......	12	143½	6.33	4.44
Low, July, 1893	12	106½	6.41	6.02
High, Aug.-Sept., 1895	12	135⅞	6.08	4.47
Low, Aug., 1896	12	105½	5.83	5.52
High, July-Aug., 1899......	12	151⅜	5.81	3.83
Low, June, 1900	22	107¾	4.91	4.55
High, Aug.-Sept., 1902	24	166⅜	5.52	3.32
Low, Sept.-Oct., 1903	24	101½	5.19	5.12
High, Jan., 1906	24	151⅛	5.56	3.67
High, Sept., 1906	24	151	5.68	3.76
Low, Oct.-Nov., 1907	29	91⅝	5.79	6.32
High, Nov.-Dec., 1908	29	122⅜	5.55	4.53

The above compilation shows that the average income yield 1890 to 1907, inclusive, has been 4.66%. The yield at present is a little below this figure (4.53%), showing that our stock prices at present are **above** the average of 18 years as measured by income return.

It would not do to figure arbitrarily that because the present income rate is below the average of the last 18 years, stock prices cannot advance still further. In the table given above we find that in several instances the yield on standard stocks fell below the present average of 4.53%. Of course, this means that stock prices advanced to a point considerably higher

(measured by income) than those which obtain at present, as every point advance in stock prices means a decrease in yield. But we may learn something, so far as precedent is concerned, by ascertaining **under what circumstances** the market rose to such pinnacles as to unduly reduce the average proceeds.

In 1890 the market reached a point, higher than any previously recorded, which reduced average yield to 4.16. This, however, was a culmination of over two years of bullish enthusiasm.

In 1892 income return fell to 4.44%. This was due more to wholesale cutting of dividends in 1891-2 than to any great advance in stock prices. In this case, however, the minimum yield was established in March and April after an average advance of over 12 points.

In 1895 yield fell to 4.47%. The two years of recovery from the panic prices of 1893 without any corresponding resumption of dividends explains this movement.

In 1899 income return fell to 3.83%. This was the apex of stock prices after a bull movement covering three years.

In 1902, after two years of bull markets, income return fell to its lowest recorded figures (3.32%).

Finally, in 1906, following two years of bull activity, the yield fell to 3.76%.

We may observe from the foregoing facts that these recoveries after decided declines are not accomplished in a single year; that frequent reversals occur during our upward movements and also that low rates of income return are premonitors of more or less extended declines.

I would like to go into this analysis more fully, but the proscribed limits of this letter forbid an extended discussion of so important a question. In order to facilitate personal observations a chart showing the average movements of securities for 20 years is produced and enclosed. The chart is based on the Wall Street Journal's average prices for 20 active rails and does not conform with the table of income return, as nothing but dividend payers could be employed in that compilation. The general movement of security prices is faithfully represented, however.

Another point which we may gather from the chart is that this much-heralded idea about a "January bulge" is not supported by precedent. There is nothing in history to warrant faith in this periodical advance. The idea is based on the theory that the distribution of semi-annual dividends and interest provide funds for investment and speculative ventures. Known factors of this character are always discounted, whether they refer to dividends, melons or money. The January and July bulges are unsupported popular fallacies.

The General Situation.

The general situation is healthy and sound, but the views of the enthusiasts are not borne out by business records. While steady improvement is apparent and may reasonably be expected to continue,

we have not yet passed the convalescent stage. In our most important industries mills are running at from 65 to 75% of normal capacity. The cheapness of money will not probably continue for long, especially if the gold exports are continued. Tariff revision of some kind now appears certain. Railroad reports are showing up in a very satisfactory way, but these documents require careful consideration. The Union Pacific annual report, issued December 10, for example, includes four months of very prosperous business in 1907 and some of the statistics bearing on this property do not appeal to the close observer. The operating ratio has fallen from 60% to 45% and maintenance from about 30% to about 20%. In October, 1907, the operating ratio was 60.2. In October, 1908, it was 43.7. Maintenance in October, 1907, was 28.1% and in October, 1908, 17.4%. I don't believe it, or, if it is true, something has suffered. The fact that economies and a dull period could cut down the ratio of expenses is admitted. In fact, this point was frequently urged in these advices a few months ago, but there is a limit to such advantages, and figures are easily subverted when a good report is desirable. The approximate showing of the annual report of Union Pacific Co. has been a known equation for some time, and it has been fully discounted in stock prices. The monthly figures are now more important, and illuminating comparisons with each preceding month are much better than with corresponding months of the previous year.

The coming advance in freight rates is in many cases fully justified. In fact, such advances are imperative. Already prices of commodities are rapidly resuming the upward trend and the economies which have been made possible by temporary declines in materials and labor will soon vanish. Bradstreet's Index Number of Commodity Prices as of Dec. 1 is 8.24 as against 8.07 Nov. 1st. We may figure with a good deal of certainty that while all or a portion of the advance in freight rates may be upheld by the Interstate Commerce Commission, such action will not be consummated without much quarreling and protest.

The Technical Situation.

There is no evidence of weakness in the technical situation. Public sentiment favors higher prices and long commitments are much more extensive than ventures on the short side. The long trades, however, are very well protected and not vulnerable to bear drives. There has been much talk of a large short interest. I feel safe in stating that such an interest does not exist and that what there is of it is concentrated in the high-priced stocks—Union Pacific, St. Paul, etc. This interest is limited in extent; weak in character, and is quickly reduced on any demonstration of strength.

The advances in the low-priced shares, which have been a particular feature of the market recently, are not based on technical conditions. There is very little speculative public interest, either long or short, in this group of securities. Many public operators purchased such

stocks as Colorado Southern, Erie, Wabash, Chicago & Alton, etc., some months ago and accepted fair profits. The pool operators find it easy now to bid up such securities. They do not meet a lot of selling on every advance as would be the case if there were extensive holdings of an indiscriminate character. They consequently resort to one of the oldest tricks in the business, i. e.: to bid up prices in order to make a selling level. If a certain stock is selling at 30 and can be bid up to 40, it will be eagerly purchased at 35 on the rather silly idea that it is a purchase because of its five-point break. The same people who would not think of touching the stock when it first reached 30 will take it at 35 under the mechanical conditions mentioned. In my opinion there has been a great deal of this high-grade manipulative work lately.

The technical situation cannot always be considered too literally. There are times when large operators find it expedient—and possible—to dispose of stocks when technical conditions are strongest. Probably this is such a period. Personally, I do not doubt that a great many securities are passing from the hands of important operators to the so-called public. Everything looks all right; the horizon is cloudless, but in my experience I have never found many superficial evidences of an approaching reversal. Everything always looks all right when stocks are being sold, just as everything looks all wrong when accumulation is going on.

While the technical situation is fairly strong, it does not, under present circumstances, suggest an advance in stock prices.

Conclusion.

Cannot find anything in the situation to warrant purchases of stocks at this level. There may be some continuation of the general or fugitive advances before a culmination is reached, but I feel satisfied that the man who can keep still for a few days and let the manipulators finish up their game will be able to get some bargains later on. The reversal of this upward movement is going to be more severe and protracted than the casual observer has any conception of and the opportunities offered on such a reversal will consequently be greater than is generally anticipated. We may have to wait a while before confident purchases are warranted, even if a quick dip occurs. The primary object is to conserve the factor of safety and wind up ventures with a profit. This we have been able to do for several years, in good and bad markets, and I sincerely hope that the tips of credulous enthusiasts; the deceptive appearances of day-to-day market movements; the exploitation of obsolete facts and figures or the personal impatience which is natural and excusable, will not involve the readers of these advices in the excessses which verify the popular idea that speculative losses greatly exceed speculative profits.

December 19, 1908.

It would be impossible in the space of one letter to consider exhaustively or even comprehensively the whole list of low-priced railroad stocks. The number and variety are too great. Without prejudice to others, ten stocks have been selected which seem to possess all or nearly all of the qualities, good and bad, which may be supposed to differentiate non-investment speculative issues of their general class from investment securities of very tangible value. The stocks selected are non-dividend payers selling below $50 a share. They have always a market in any kind of financial weather, which is a very important thing, and each has a record of fluctuations by which one may see how it was influenced by speculation in the past. The ten stocks and their price extremes for several years are:

	1908		1907	
	Low.	High.	Low.	High.
Wabash common	6¾	19⅞	8	18½
Southern Ry. common	9⅛	26¾	10	34
Texas & Pacific	12¾	36	17½	37⅛
Denver & Rio Grande com...	14¼	39¼	16	42⅞
Rock Island common..	10½	25¼	11¼	30⅛
Erie common	12	36	12¼	44¼
M., K. & T. common	17½	39¾	20¾	44⅝
St. Louis Southwestern com.	10	24	11	25½
Kansas City Southern com..	18	40¼	18	30¾
Wisconsin Central common..	13½	33	11	25⅞
	1906		1905	
	Low.	*High.	Low.	High.
Wabash common	18	26½	17½	24¼
Southern Ry. common	31⅝	42⅞	28	38
Texas & Pacific	28	40⅛	29¾	41
Denver & Rio Grande com...	36⅝	51⅞	27¼	39¾
Rock Island common..	22½	32⅝	21¾	37⅞
Erie common	38⅛	50⅞	37½	52¾
M., K. & T. common	29	43⅝	24	39½
St. Louis Southwestern com.	20½	27⅞	20	27½
Kansas City Southern com..	22⅞	37⅜	22⅛	36¼
Wisconsin Central common..	23	33	20	33½

* Highest to about Dec. 15, 1908.

This is a very fair representation of "cheap stocks," so-called from the fact that their quotations are low, and often for no other concrete reason whatsoever. They are obviously not cheap for the investor who seeks income, as they yield none. That they have value is demonstrated by their market records. Things without value could not continue to be quoted years on end in the stock market between $10 and $50 a share and serve acceptably as collateral in bank loans. Indeed, some

of the stocks in the above list, specially Erie, are at times better collateral than investment stocks in which there is not a continuous market, for the reason that one can always sell Erie in large amounts. That adds greatly to the acceptability of a thing as collateral.

Those stocks possess a kind of potential, prospective value which is not easily defined. It may escape statistical analysis entirely. They represent deferred hopes with respect to great properties. The speculator is continually reminded that stocks like Union Pacific, Northern Pacific, Reading and Jersey Central, now high-priced investment securities, all sold for a few dollars a share years ago and were pronounced worthless by the experts in abstract value. They had, however, a great potential value, and the growth of the country brought them through. The country is still growing; ergo, some of these present-day cheap stocks will thicken and become very valuable.

Insofar as statistical comparisons are possible an attempt has been made to show the earning power of these properties in a manner to give some notion of the point at which the common stockholders' expectations may begin to be translated into figures. Beyond this, there is forever the possibility that the general value and earning power of a property may be largely enhanced by changes in external conditions. In the text the roads in their larger aspects are separately treated, space forbidding more than a presentation of the few salient points.

The first of the two subjoined tables will enable the reader to compare the performances of the properties represented by the ten stocks under review during the past three fiscal years. In it are given gross earnings, operating expenses and taxes, net earnings, fixed charges and surplus earnings, per mile of road operated, together with the percentage of gross earnings devoted to maintenance, both on way and on equipment.

Table I.

Year.	Gross revenue per mile.	Expenses and taxes per mile.	See note (a)	Net per mile.	Deductions for fixed charges—i. e., interest, rentals, etc., per mile.	Surplus per mile.
Wabash:						
1908	$10,574	$7,695	27.6%	$2,879	$2,569	$310
1907	11,278	8,104	23.5@	3,174	2,193	981
1906	10,427	7,546	25.9%	2,881	1,980	901

(a) Ratio maintenance expenditures to gross earnings from operation being included in operating expenses.

Table I.—(Continued)

Year.	Gross revenue per mile.	Expenses and taxes per mile.	See note (a)	Net per mile.	Deductions for fixed charges — i. e., interest, rentals, etc., per mile.	Surplus per mile.
Southern Ry:						
1908	7,396	5,593	29.7%	1,803	1,749	54
1907	7,744	5,924	29.5%	1,820	1,517	303
1906	7,490	5,394	28.4%	2,096	1,387	709
*Texas & Pacific:						
1907	8,977	6,554	23.4%	2,423	1,275	1,148
1906	8,110	5,676	22.4%	2,434	1,200	1,234
1905	6,643	4,811	21.7%	1,832	1,100	732
Denver & Rio Grande:						
1908	8,393	5,515	26.4%	2,878	1,511	1,367
1907	8,582	5,509	24.4%	3,073	1,451	1,622
1906	8,105	5,178	24.9%	2,927	1,425	1,502
**Rock Island:						
1908	259.71	2.18	....	257.53	256.88	0.65
1907	274.64	2.22	....	272.42	261.41	11.01
1906	315.25	2.14	....	313.11	263.37	49.74
Erie:						
1908	23,040	18,935	33.2%	4,105	4,858	753
1907	24,860	17,600	24.6%	7,263	4,540	2,723
1906	23,250	16,670	26.5%	6,580	4,230	2,350
Missouri, Kansas & Texas:						
1908	7,580	5,570	26.4%	2,010	1,570	440
1907	8,520	5,750	24.3%	2,770	1,570	1,200
1906	6,950	5,065	27.3%	1,885	1,345	540
St. Louis Southwestern:						
1908	6,550	5,320	35.3%	1,230	1,013	320
1907	7,685	5,600	30.1%	2,085	1,054	1,179
1906	6,195	4,793	33.9%	1,402	837	317
Kansas City Southern:						
1908	10,590	7,300	24.1%	3,290	1,340	1,950
1907	10,920	6,690	22.1%	4,230	1,336	2,894
1906	9,150	6,890	28.5%	2,260	1,200	1,060
Wisconsin Central:						
1908	7,145	5,328	25.8%	1,817	1,473	344
1907	7,442	4,953	23.4%	2,488	1,444	1,044
1906	7,286	4,945	23.3%	2,340	1,520	820

* Fiscal year ends Dec. 31.
** See Rock Island text below.
(a) Ratio maintenance expenditures to gross earnings from operation being included in operating expenses.

The second table represents, besides the preferred dividends per mile (whether being paid or not), a calculation of the minimum gross earnings per mile necessary to each road to meet its present fixed charges; likewise a calculation of the minimum gross per mile beyond which figure an increase in gross earnings means a surplus for the common stock. The last column gives the simple average of the actual gross earnings per mile of the past three years. In calculating the minimum gross to pay charges and the minimum gross to begin earning on the common stock, no arbitrary formula has been followed, but an attempt has been made to base the estimate upon each road's individual peculiarities of position, traffic and physical condition. In most cases a lower bases of operating expense has been assumed than actually prevailed during the last fiscal year, but as last year's conditions were wholly extraordinary, it is believed that in such cases the assumption of a considerably lower ratio is entirely conservative, due regard always being had to the necessity of maintaining the property in good condition. Thus it has been assumed that the Erie should normally be operated for seventy-five per cent. of gross, the average of the last three years, even though the ratio for last year alone was eighty-two per cent. It is probably not going too far to say that the Erie will be operated some years hence for less than seventy-five per cent., and similar reduction from the basis herein assumed will be made by a number of the other roads.

Table II.

Road.	Estimated minimum gross per mile to cover all expenses and charges.	Preferred dividends per mile.	Approximate figure permile at which common stock's equity in earnings begins.	Average gross revenue per mile for three years.
Wabash	$10,190	$1,070	$11,634	$10,760
Southern Ry.	7,350	400	7,890	7,543
Texas & Pacific	6,640	(a) 663	7,535	7,910
Denver & Rio Grande	6,250	915	7,485	8,360
Rock Island	259.06	171.80	430.86	283.20
Erie common	19,430	1,170	24,100	23,715
M., K. & T. com	5,230	170	5,800	7,683
St. L. S. W. com	4,580	680	6,280	6,610
Kansas City So. com	4,190	1,015	7,360	10,220
Wisconsin Cent. com	6,400	440	7,175	7,290

(a) On $25,000,000 income bonds, 5%.

Wabash.—($51,909,233 common stock.) In the gross revenue above is included other income amounting in 1908 to $349 per mile, in 1907 to $374 and in 1906 to $489. This property is in fair to good physical condition. Besides maintenance expenditures of 23.5% to 27.6% of gross earnings, included in operating expenses, the company has arranged to spend more than $1,000,000 a year out of income for permanent additions and betterments, especially for new equipment. It was the diversion of these sums from income to property that kept the management in a row with the holders of $30,000,000 debenture bonds, entitled to 6 per cent. interest if earned. These debenture bonds are now practically all out of the way, having been exchanged in the last two years for 72% in new refunding 4% bonds and 52% each in common and preferred stock. It is the payment of interest on these new 4s that brings up the fixed charges per mile. The year 1908 was particularly hard on the Wabash; it has remarkable recuperative power. Gross earnings in 1907 reached the point at which a common stockholder might suppose his equity to begin, but dividends are a very long time off. The property needs to be double tracked from Toledo to Chicago, having about reached its limit of single-track capacity. Its immediate possibilities will be determined very largely by three things: by whom George J. Gould shall be succeeded as the arbiter of the road's future; with what motives this successor shall set to work, and whether the Wheeling & Lake Erie and the Wabash-Pittsburg Terminal shall be reorganized independently of the Wabash, which has controlled them, or in a way to insure the continued co-operation of the three properties. Into the Pittsburg Terminal venture first and last the Wabash put some $25,000,000 of its own capital, and if the Wheeling & Lake Erie and Wabash-Pittsburg Terminal were reorganized in an unfriendly way, it might get very little of that investment out. The selling of the common and preferred stock received by former holders of debenture bonds brought upon the market during 1907 a very large amount of these securities, and as 1907 was a bad year for any sort of liquidation, the market for Wabash shares greatly suffered. This would account in some measure for the very low prices at which they were quoted in the early part of 1908. Apparently this new stock, nearly $30,000,000 aggregate par value of common and preferred, has been pretty well digested.

Southern Railway.—($120,000,000 common stock.) Gross revenue above includes other income amounting in 1908 to $326, in 1907 to $237 and in 1906 to $216 per mile. The physical condition of this property is very uneven, owing to the unscientific nature of the development and expansion that took place under President Spencer. There was too much expansion and too little development, so that there came finally to be a large unreciprocating system of 7,500 miles, the main system of

which, Atlanta to Washington, was quite unable with its one track to handle the traffic put upon it except in the most wasteful manner. Mileage was taken into the system faster than it could be digested. The new mileage was financed with bonds, and bonds also were issued freely for things which other roads would have bought out of income. What the Southern Railway now most needs is capital. The present management has the ability to employ it properly. It is essential that the main line between Atlanta and Washington be double tracked, and until these and other improvements are made the road cannot be operated efficiently or ecnomically, and dividends on the common stock cannot be thought of. The property serves a wonderful and coming territory, and if, with its present capital burden, it can raise the additional funds needed for extensive development, its securities will one day be worth much more. As will be seen from the statistical exhibit, the company had a tight squeeze to earn its fixed charges for the year ended June 30, 1908. It has lately been cutting maintenance heavily to make a better showing. On its showing of increased net, though at the expense of maintenance, the management hopes to be able to improve the company's credit. Borrowing thus from maintenance seems often to be a necessary expedient in the case of our railroads.

Texas & Pacific.—($38,763,810 stock, all one class.) The holder of this stock has tangible expectations. Earnings have already well passed the point at which his equity therein may be said to begin. The gross earning capacity per mile is greater than that of St. Paul and obligatory fixed charges per mile are low. There is a floating debt of about $5,000,000, but in the case of a road with a gross earning power of $9,000 per mile and the record of having spent in seven years more than $10,000,000 out of income, over and above maintenance, for permanent additions and improvements, this is no very difficult matter. The company will have no trouble on the score of its small floating debt. This is one of the sweetest properties in the whole Gould group. To the intending buyer of stock it has the disadvantage along with the advantages (if there be any of the latter) of being a kind of family asset. The road is mostly in good condition. Some branch mileage is poor, but the main line is generally up to the mark required of it. It is in a position to profit greatly in the future by the development of the Gulf haul from the West and Northwest.

Denver & Rio Grande.—($38,000,000 common stock.) This property has a very good record. It has paid 5% continually for a number of years on $45,761,400 preferred stock, with a comfortable surplus. It has done very little new financing on its own account in recent years, being well able to maintain itself properly and buy improvements out of earnings. It is not so advanced, in fact, as it might be had new capital been

used aggressively. The problem at present is the Western Pacific, building under guarantees of interest, etc., by the Denver & Rio Grande. If the Western Pacific road (Salt Lake City to San Francisco) can pay its own charges from the start, as the promoters believe, it will be a very big thing for the Denver & Rio Grande. If it can pay anywhere near its own charges the Denver & Rio Grande can well afford to make good a reasonable deficit in return for the through business it will receive from the Western Pacific. This makes Denver & Rio Grande common a very interesting speculation. There will be no dividend on it, however, until the conditions created by the opening next year of the Western Pacific are much more definite. It will be enough for the Western Pacific to earn the interest on its first mortgage bonds during the first two or three years, which leaves it up to the Denver & Rio Grande to pay the interest on the securities recntly sold to finish building the Western Pacific. The Denver & Rio Grande for this purpose has already sold $15,000,000 of its own bonds, taking as security second mortgage Western Pacific bonds. Gross earnings in the table above include other income amounting in 1908 to $238, in 1907 to $212 and in 1906 to $157 per mile. This item of other income will be much more important when the Western Pacific is able to pay interest on the securities held in the Denver & Rio Grande treasury.

Rock Island Company.—($89,703,702 common stock.) The Rock Island shares in which the trading is are the shares of the Rock Island Company, and this company is a "holding" concern only. By a series of amazing entanglements it holds control of a chain of railroads aggregating some 14,000 miles. The Rock Island Company owns all the stock of the Chicago, Rock Island & Pacific "Railroad" Company; the Chicago, Rock Island and Pacific "Railroad" Company owns most all the stock of the Chicago, Rock Island & Pacific "Railway" Company (the old Rock Island); also, the C., R. I. & P. "Railroad" Co. holds control of the St. Louis & San Francisco, which in turn controls the Chicago & Eastern Illinois, the Evansville & Terre Haute, etc., etc. There are a number of minor companies besides. Between them there is such a duplication of accounts, such a swapping of dividends and interest and such a general confusion of equities that if one should attempt to make up a combined income account and draw off the results it would only be possible to guess very roughly at the Rock Island Company's equities therein. The Rock Island Company and the Chicago, Rock Island & Pacific Railroad, its sole asset, and also a holding company, must be treated as one. Their earnings consist of dividends received by the "Railroad" Company; its expenses are clerical: it pays interest on the collateral bonds issued against its holdings of old Rock Island stock and the shares of the St. Louis & San Francisco. If there is anything

left (there hasn't been anything to speak of for several years) it belongs to the Rock Island Company overhead. These receipts and disbursements per mile of railroad controlled are exhibited as the only concrete way of showing the Rock Island Company's stockholder the nature of his speculation. The holder of Rock Island stock is not a full participating owner in the properties; he can't vote. He is a dependent. It is believed that the bankers eventually will insist that the common stock be enfranchised. The prospect of this is a recurring bull argument on the stock. Rock Island common is an abstract speculation. It is the stock of a holding company whose only asset is the stock of another holding company, whose assets consist of railroad stocks against which it has issued bonds. The underlying companies, principally the old Chicago, Rock Island & Pacific Railway, might be perfectly solvent and yet unable to pay dividends to the "Railroad Company" of the first instance, in which case the "Railroad Company" would become insolvent through its inability to pay interest on the bonds collaterally secured by the stocks on which dividends had ceased and what equity there would be left for the Rock Island Company, holding an insolvent holding company must be determined by a higher than an individual financial reason.

Erie.—While nominally failing to earn its fixed charges, the Erie in 1907-8 charged its maintenance accounts so much more heavily (by $3,330,000) than the previous year that the deficit loses much of its significance, especially as an arrangement had been made with bankers several months before the end of the year to "take care" of a large part of the accruing interest. Not including this extra expenditure on the property, the road has earned in the past three years an average surplus over full preferred dividends of $1,395,000, equivalent to 1.2 per cent. on the $112,378,000 common. For comparisons in Table I. other income is deducted from fixed charges. While this percentage would look small in the case of a young road in thinly settled territory, it must be remembered that every dollar the Erie puts into grade reductions or added terminals affects the profitableness of $50,000,000 to $60,000,000 worth of business annually. The three years mentioned include probably the worst single year, from the standpoint of net earnings, that the present Erie Railroad Co. has experienced. The increase in the operating ratio from 78% to 82% (including all operations and taxes) meant a difference of $4,000,000 to the stockholders. The Erie's great fault is that, with $93,000 of bonds and preferred stock outstanding for every mile of first and second track, besides $35,000 of common stock, it still needs at this late day new funds, not alone for natural expansion, but for putting its plant into economical operating condition. Against this must be balanced its acknowledged strategic advantages in the trunk line field and great volume of business. Within a few months

the elimination of the worst grades, which might have saved the company from a deficit last year if panic conditions had not interrupted construction, will have been completed and regular, if slow, progress is being made on the new cut through Bergen Hill, a sore point in traffic handling. Erie preferred stocks pay no dividends at present.

Missouri, Kansas & Texas.—The failure of the cotton crop over large areas of the Southwest and the reduction of passenger or freight rates or both by arbitrary enactment in most of the states in which it operates, combined with the general depression to hit the Missouri, Kansas & Texas particularly hard last year. As a consequence, it earned, in addition to the regular 4 per cent. on its $13,000,000 preferred stock, only 1.3 per cent. on its $63,300,000 common stock. In 1906-7 the balance for the common stock was equal to 5.8 per cent. In 1905-6 the income account showed but 1.8 per cent. for the common, but in that year and before, improvements were included in operating expenses. This road is one of the only two routes from the upper Missouri valley to the Gulf which are at all suitable as outlets for large mid-continent systems and rumors have frequently been rife as to its acquisition. The stock is widely distributed, the present president, A. H. Joline, has frequently expressed his belief in the value of the road's independence, and for other reasons which will readily suggest themselves it is safe to say that a controlling interest in the stock could not easily be acquired except by such methods as would result in a sharp advance in price. The admission of Oklahoma to statehood, together with the opening of about 8,000,000 acres of fertile land in that state to settlement, have a direct bearing on the volume of the road's business in the near future. In eight years the company has issued bonds to the amount of $21,000,000 and has put $15,000,000 of surplus income back into the property, yet has barely been able to provide facilities for its growing traffic and has had almost no means at all to devote to internal improvement in the interest of economical operation. Large sums will be needed for such purposes in the near future, and it is the declared policy of the management to provide them out of income. While this may temporarily postpone the actual payment of common dividends, it obviously does not postpone the increase in the intrinsic value of that issue, and a dozen instances could be cited in which such a policy has built up the quotable value of a stock as rapidly as the payment of uncertain or scantily earned dividends has done in others. The Missouri, Kansas & Texas is a road of many brances, operating 3,075 miles of line and hence has more to gain from the development of the occupied territory than a less extended road.

St. Louis Southwestern.—The most striking feature of the financial affairs of the St. Louis Southwestern is the slight amount of capital provided the company in the last fifteen

years, less in proportion to its mileage than probably any other railroad operating in the rapidly developing Southwest. It is to-day without any plan for providing additional funds, even for extensions. It has, however, the advantages resulting from enforced frugality, namely, freedom from floating debt and a sufficient working capital for ordinary uses, while it is not burdened with branch lines and other acquistions of doubtful value, as a railroad sometimes is which has had hearty but undiscriminating financial backing. The company could easily float a moderate bond issue on its present condition and very likely will do so as soon as the Gould bankers are less occupied elsewhere. Last year was an exceedingly bad year for the "Cotton Belt," the surplus over fixed charges having been equal to but 1.6 per cent. on the $20,000,000 preferred stock, which is entitled to 5 per cent. In 1906-7 the road earned the full 5 per cent. on its preferred stock and 3.5 per cent. on its $16,500,000 common stock. Last year its maintenance charges were higher than the year before, notwithstanding the heavy falling off in gross. In November, 1908, the St. Louis Southwestern ordered 31 locomotives and 35 passenger coaches, an indication of the faith of its management in the revival of business in 1909 throughout the territory served. The heavy Texas cotton crop and the enormous movement of settlers into the Southwest, which still continues, are factors to be borne in mind when judging the future of this road and its securities. In the table of comparisons other income is credited to fixed charges.

Kansas City Southern.—Enjoys the shortest route from Kansas City to the Gulf and is a perfect specimen of trunk line, being thus less dependent upon the crops in its own territory than most southwestern roads. On the other hand, with more branches it would derive greater benefit from the prosperous seasons. This road is easily controlled by a group of New York capitalists, acting for themselves and large Dutch stockholders, who have proved their capacity to manage the road and to safeguard its traffic without the assistance of any of the powerful railroad interests that lie closely about it on all sides. It would furnish any one of several grangers with an excellent Gulf outlet, but considering the road's present earnings, control could probably not be had except at a very high price. Plans are being matured for providing the company with funds for branch-line construction. The successful location and construction of two or three hundred miles of branches would yield a substantial return on their cost. The question of lateral extension, as a safeguard against dangerous competition in through traffic, is one of the road's serious problems of the future. In 1907-8 the company earned 2.5 per cent. on its $30,000,000 common stock; in 1906-7, 5.2 per cent. Other income has been credited statistically to fixed charges.

Wisconsin Central.—Stocks of this road derive their value

largely from the strategic position of the road, although payment of dividends on the preferred has begun. The line offers a valuable entrance into Chicago from the Northwest and is situated to develop a heavy traffic in ore from the Minnesota fields to the Lakes, with a return haul of coal for points West. It is not unlikely that this road may finally become affiliated with the Canadian Pacific or some other large system. Last year the company earned but 2.5 per cent. on the preferred stock, but an official statement issued at the time the initial dividend on the preferred stock was declared stated that the surplus earnings of the first four months of the present fiscal year were equivalent to an entire year's preferred dividends at 4 per cent. This makes it very probable that the common stock will show substantial earnings this fiscal year. The company has between $1,000,000 and $2,000,000 yet to provide for the completion of the Duluth extension, and needs further financing for improvements, although the latter is not a pressing necessity at this time. Dividends upon the common are to be considered rather remote, because the company has not spent money upon either maintenance or improvements with any noteworthy liberality since the reorganization in 1899. It owns a land grant of 400,000 acres, a part of which is underlaid with iron ore. The net proceeds from royalties and sales of land have amounted to several hundred thousand dollars annually for about ten years, and have gone into a sinking fund invested in underlying bonds. In 1906-7 the company's surplus earnings were equal to 4 per cent. on the preferred stock and 3.8 per cent. on the common; in 1905-6 the common stock earned 2.1 per cent. Mileage operated, 1,023 miles; preferred stock, $11,267,000; common stock, $16,147,800.

The General Situation.

The general situation continues favorable and gradual improvement is noted in most lines. There is, however, no such abnormal betterment as has been suggested by the writers or observers who appear to think something may be gained by stretching the truth. Such methods of exaggeration defeat their own object by inciting credulous people to optimism, which is foolish rather than justified. The recovery from panic conditions is progressing in a satisfactory but not an abnormal manner.

The news of the week affecting security prices has been rather unimportant. The Holland-Venezuelan complications are of no importance as a market factor. Mr. Taft's utterances in regard to the tariff and the Sherman law are merely reiterations of his expressed policies.

Talk of the formation of an independent Smelting Company is held primarily responsible for the slump in American Smelters'

securities and secondarily responsible for the reaction in the general list. There were, however, several other reasons why Smelters should decline. The low price of silver, the somewhat discredited management, a weakened technical situation and possible tariff agitation affecting lead are probably responsible for more of the decline than rumors of extensive competition.

The effect of the declines in Smelters, as applied to the general list, would naturally be very slight, or at least transitory. The fact is a decline was warranted not only in Smelters but in many other quarters of the general list.

Owing to the length of this letter I cannot discuss the minor items of the general situation fully. However, there is nothing of importance except some unfavorable signs in money conditions. In employing the word "unfavorable" I refer particularly to the stock market. Our surplus has practically disappeared; both time and call rates are hardening, and the working capital of the government is very small. We may, and probably will, export more gold before the movement ceases. The Bank of England shows a reduction in its reserve ratio this week to 45.62 as against 48.69 last week. While there is nothing serious in money conditions there is much that may affect speculation temporarily, and this factor should be given the closest attention.

The Technical Situation.

In a recent letter I stated that the apparent existence of a large short interest as reflected by borrowing demand was not to be depended on. The suggestion was offered because, while there was every appearance of a demand for stocks in the loan crowd, the bears, presumably responsible for this condition, could not be found. It appears now that my suspicions were justified. I have it on very good authority that several large operators, deeming it expedient to accept profits on a considerable line of stocks, employed one of our keenest (no pun intended) operators to ostensibly sell short in heavy amounts. The stocks of the original holders can easily be delivered later on. As an illustration of how nicely this amiable form of deception works it may be related that late in 1907 I was informed positively that Atchison common was being heavily delivered in the names of people who ought to know all about Atchison. The price of the stock was at the time around $70. It was suspected at that time, and the suspicions were afterward confirmed, that this stock had been sold many months before at much higher prices and the contracts filled with borrowed stocks. This proceeding gave in its inception no impression of personal sales by the important interests; it did give the impression of a growing short interest, and when the time came to repurchase the securities a lot of wise people were

scared to death by evidence of deliveries in the important names referred to. Very pretty and very effective. It helps to sustain a market and facilitate liquidation and later on to depress the market and facilitate accumulation.

I do not find any extended short interest in this market. There is some poor selling by the eleventh-hour bear element which will operate to bring about sharp rallies now and then, but this crowd is eliminated very quickly. There is a very considerable bull account which is not strong and a stronger bull account which is getting discouraged.

Conclusion.

See no reason to change my views. The market is not in a position which will permit of recommendations to purchase stocks, and I do not care to take chances of inducing a lot of people to sell short in what may be considered merely an important reaction in a bull period. Later on we will be able to buy a lot of bargains at a lower range of prices, with every reason to anticipate a successful issue. In my opinion it will not be long before such opportunities are presented.

In presenting the analyses which form the principal portion of this letter it is my intention to begin laying out our plans for future operations, and not to recommend immediate purchases of any of the securities examined. I think it is quite important that the merits of any stock purchased should be examined and understood before we risk our money.

Continue to advise a waiting attitude for the present.